

# **Rebranding a disgraced organization: A case study of the Icelandic banks**

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## Abstract

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**Title:** Rebranding a disgraced organization: a case study of the Icelandic banks

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**Keywords:** Rebranding, Disgraced Organizations, Corporate Social Responsiveness, Corporate Visual Identity, Customers perception of Image & Reputation

**Purpose:** The purpose of this thesis is to gain understanding of rebranding of a disgraceful organization. It will be a modest attempt gain insight into customer's perception of a changed identity and how it affects the organization's image and reputation.

**Methodology:** The present study is qualitative research using semi-structured open ended interviews with empirical data that is approached through interpretative approach.

**Theoretical perspectives:** Relevant theory on rebranding, corporate social responsiveness and corporate visual identity; altogether framed by the focus on the perception of change in the eyes of the customer.

**Empirical foundation:** This paper is based on a case study of the three major banks in Iceland. The empirical material constitutes 14 semi-structured open ended interviews with customers. Additionally, bankruptcy reports, newspaper articles and the banks web sites are analyzed.

**Summary Findings:** The banks rebranding efforts have had little affect on their customers as the general public has lost all trust in the governance of the financial system. My main argument is that although branding and rebranding theories state how and what you should do to be successful, there are situations as in my case that leave the disgraced organization's rebranding strategies with little power to win back the loyalty of their customers.

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Elvar Ólafsson

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## Table of Contents

Abstract .....	1
Acknowledgement .....	2
1 Introduction.....	5
1.1 Background .....	5
1.2 Research question.....	10
1.3 Purpose .....	11
1.4 Method .....	11
1.5 Relevance .....	11
1.6 Limitations .....	12
1.7 Thesis Structure .....	12
2 Methodology.....	14
2.1 Case study .....	14
2.2 Method .....	15
2.3 A Reflexive Approach.....	15
2.4 Data for building the case studies.....	16
2.5 Interview Setup.....	17
2.6 Validity, Reliability and Objectivity .....	19
3 Frame of reference .....	21
3.1 Branding.....	22
3.2 Corporate Social Responsibility (CSR) and Corporate Social Responsiveness (CSR2).....	24
3.3 Rebranding.....	28
3.4 Corporate Visual Identity (CVI).....	29
3.4.1 A new name and slogan .....	31
3.4.2 Logo – design and colour.....	33
3.5 Corporate rebranding pitfalls .....	35
3.6 Image, reputation and Loyalty .....	37
3.7 Conclusion.....	41
4 Presenting the Icelandic banks.....	42
4.1 Kaupthing / Arion banki .....	42
4.1.1 Kaupthings’ pre-bankruptcy transactions .....	43
4.1.2 Older research on Kaupthing.....	46

4.1.3	Rebranding Kaupthing as Arion .....	47
4.1.4	Arion's financial solutions.....	49
4.2	Glitnir / Islandsbanki .....	50
4.2.1	Glitnir's pre-bankruptcy transactions.....	50
4.2.2	Older research on Islandsbanki .....	52
4.2.3	Rebranding Glitnir / Islandsbanki .....	52
4.2.4	Financial solutions .....	54
4.3	Landsbankinn .....	54
4.3.1	Landsbankinn's pre-bankruptcy transactions.....	55
4.3.2	Older research Landsbankinn.....	57
4.3.3	Rebranding Landsbankinn / NBI .....	58
4.3.4	Landsbankinn's financial solutions.....	59
4.4	Conclusion.....	60
5	Analysis .....	61
5.1	Branding and rebranding efforts .....	61
5.2	The interviewee's pre-bankruptcy reflections .....	64
5.3	Post bankruptcy reflections .....	65
5.4	The rebranding effect .....	66
5.4.1	New name.....	67
5.4.2	New logos .....	68
5.4.3	New values: .....	69
5.4.4	The Financial solutions .....	70
5.5	If you had to start all over .....	71
5.6	Conclusion.....	73
6	My contribution and further discussion .....	76
	References .....	79
	Appendix 1 - Interview topic guide.....	87

## Table of Figures

Figure 1: Bankruptcy comparison .....	7
Figure 2: Arion's former and current logos.....	48
Figure 3: Islandsbanki's former and current logos .....	53
Figure 4: Landsbankinn's logo.....	59

# 1 Introduction

## 1.1 Background

The financial crisis that has been ongoing since 2007 was triggered by an insolvent American banking system. Their government had for a couple of years offered sub-prime mortgage loans so that everyone could afford their own home. Now people with no jobs, no collateral and no assets could even get a mortgage on a new house. The defaults on the sub-prime mortgages sent a shock wave around the world. The result was a collapse of several financial institutions, a bailout of banks by governments and downturns in stock markets. The crisis quickly developed and stretched into a global economic shock, resulting in numerous European bank failures and reductions in market value of equities and commodities. Unemployment has risen in numerous countries and property markets have suffered. Questions have risen around bank solvency and credit availability. It is questionable if credit rating agencies and investors failed to accurately price the risk i.e. in mortgage related financial investments and in credit evaluation where lenders entered into unsafe or unsound secured loans for inappropriate purposes.

Over the last few years the Icelandic financial system has been on a roller coaster ride. Accessibility to international loans prior to the global financial crisis fuelled the expansion of Icelandic organizations with the three major banks leading the excessive desire for world domination.

After the privatization of the two Government owned banks; Bunadarbankinn (now Arion) and Landsbankinn in 2002, the Icelandic business environment changed a lot. Competition between the three major banks of Iceland (3MB's: Landsbankinn, Islandsbanki and Arion) increased and their roles and locations overlapped. Later, the rotten possibilities of privatization became apparent. The banks largest owners had an abnormally easy access to credit at their banks in their capacity as owners. In all of the 3MB's, their principal owners were among the largest borrowers where collateral was not really the most important issue. Besides opening new bank

subsidiaries and buying local companies there were a number of questionable actions on behalf of the leading Icelandic businessmen. It is questionable if they struck gold or not but either way the Icelandic business men could now buy for example: luxury yachts, private jets, Manhattan penthouses, the English football club West Ham, the Danish shopping centre Magasin Du Nord and the Danish Hotel D'Angleterre. The above are just few examples of double edged investment made by the Icelandic businessmen. And with all that money, champagne and caviar was not good enough at parties. As an example, Mr. Olafsson, one of Arion's former owners, hired Elton John to sing a few songs for him at his 50<sup>th</sup> birthday, and at a small dinner party for the banks favourable clients at the Riviera, Tina Turner entertained while the guests where served the main course which was ironically sprinkled with gold flakes. Not bad for being a banker or a businessman in country with around 300.000 inhabitants.

Iceland's deep financial depression/crisis started following the bankruptcy of the 3MB's in October 2008. Although a part of the reason may be the international financial crisis, we have to take into consideration the role of the Icelandic economy and its institutions. Banking experience of Icelanders, the size of the country and institutions, not to mention the size of the Icelandic economy compared to the capital assets size of the banks was extremely important (Danielsson & Zoega; 2009).

The three banks have for decades operated a net of branches throughout the country. In the same market there are also several domestic banks and financial service firms but overall the big three controlled over 85% of the investment market (Fjármálaeftirlitið, 2009). Moreover the domestic banks and many financial service firms actually depended on the big three for funding their investments. Following the bankruptcy of the 3MB's in October 2008, the Icelandic government took over the domestic part, while declaring the international divisions bankrupt.

To fully understand how the bankruptcies of the 3MB's affected the Icelandic economy, you must take the economy's size into consideration. Transferred to the American economy this would equal that 300 Lehman Brothers banks would become bankrupt at the same time, given that their economy is 1.100 times bigger than the

Icelandic one (Bibler, 2010<sup>1</sup>). This is better demonstrated in image 1 that lists the bankruptcy of the 3MB's compared to the biggest bankruptcies in America.

The bankruptcy of the 3 major Icelandic banks compared to the biggest bankruptcies in America			
	Organization	Date of bankruptcy	Pre-bankruptcy organization type assets in billion \$
1	Lehman Brothers Holdings Inc.	15/09/2008	Finance 691
2	Washington Mutual, Inc.	26/09/2008	Finance 328
	<b>The 3 major Icelandic banks combined</b>	<b>___/10/2008</b>	<b>Finance 182</b>
3	WorldCom, Inc.	21/07/2002	Telecommunication 104
4	General Motors	01/06/2009	Automotive 91
5	<b>Kaupthing banki hf.</b>	<b>09/10/2008</b>	<b>Finance 83</b>
6	CIT Group Inc.	01/11/2009	Finance 80
7	Enron Corp	02/12/2001	Energy 66
8	Conseco, Inc.	17/12/2002	Finance 61
9	<b>Landsbanki Íslands hf.</b>	<b>07/10/2008</b>	<b>Finance 50</b>
10	<b>Glitnir banki hf.</b>	<b>07/10/2008</b>	<b>Finance 49</b>
11	Chrysler LLC	30/04/2009	Automotive 39
12	Tornburg Mortgage, Inc.	01/05/2009	Real Estate 37
13	Pacific Gas and Electric Company	06/04/2001	Energy 36
14	Texaco, Inc.	12/04/1987	Energy 35
15	Financial Corp. Of America	09/09/1988	Finance 34

Figure 1: Bankruptcy comparison

The economy's problem formulation started in 2004, when the 3MB's charged into the Icelandic mortgage loan market, offering up to 100% mortgages for lower interest rate or 4.15% to 4.20% in stead of the 5.15% the governments Housing Financing Fund had been offering. Another temptation related to the mortgages was that it wasn't linked with indexation but the risk was that it would have to be linked with a foreign currency. By removing the indexation you remove the buffer that designed to protect the loans from inflation and currency fluctuations. The news reporters quickly responded and helped to convince the general public of how great this business opportunity was. Housing prices took off and continued to increase until 2008 or just before the 3MB's bankruptcies. Since the financial crisis the Icelandic Krona's value has dropped considerably so the mortgages have increased for about 115% of the 2008 value. So at the same time as market value of housing has gone down, their

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<sup>1</sup> Jared Bibler, investigator for the F.M.A. - Financial Supervisory Authority – Iceland), Morgunbladid 2010.03.11



mortgages have more than doubled leaving many Icelanders technically bankrupt with higher monthly payments and uncontrollable debt.

The banks were however protected by the ones that should have been supervising them. The government attacked and ridiculed the ones that questioned the banks' bizarre investments. Richard Thomas, a Financial Advisor for the investment bank Merrill Lynch made such accusation four months before the 3MB's bankruptcy and criticised the Icelandic government as well for their inactions. On July 25<sup>th</sup> 2008, in a RÚV television news interview, Þorgerður Katrín Gunnarsdóttir, then the Minister of Education responded by stating that: "*Their [Merrill Lynch's] comments are astonishing for a respectable investment bank and I wondered what bizarre point they are trying to prove since this bears no grasp on reality. I also wonder, as the Minister of Education, if this person couldn't use a bit of re-education*". This interview or statement can be viewed as a testament of the arrogance and/or denial placed in the mind of an Icelander at the time. Coming from a small country with relatively low crime rate, is it possible that Icelanders just could not believe that their bankers were conducting business in an unethical manner?

After the 3MB's bankruptcies the Icelandic government launched a special investigation (SIC) to try to uncover the reason behind it. The SIC report shows, among other, a textbook case of accounting control fraud at all of the three big banks. The recipe for accounting control is defined by Black (2005) as following: 1) you grow extremely rapidly; 2) you give really, really bad loans with higher yields; 3) you have extraordinary leverage; or a lot of debt compared to any equity; and 4) you have no meaningful last reserves. These factors can all be found in the banks' transactions over the last few years. This can also be called a Ponzi scheme if a fifth condition is added i.e. 5) self-funding of shares e.g. where managers of the 3MB's got considerable amounts loaned from the banks in order to buy their own stocks with the total sum to be repaid in one transfer in 50 years time. This created extraordinary amounts of fictional capital, allowing the banks to continue their immense growth and fictional gains that allows the managers to collect hefty bonuses. The problem with a Ponzi scheme according to Black (2005) is that it is guaranteed to destroy the organization in the end. If this is allowed to go on long enough it will not only destroy

the firm but also the country's economy and that might have been precisely what happened in Iceland.

At the moment there is a lack of money circulating in Iceland. As a consequence there are few investments taking place at the banks. Some research even suggests that as a result of the crisis, the general role of banks will return to its fundamental roots, resulting in a declining role of investment banks (Mollenkamp & Whitehouse, 2008).

The 3MB's have lost credibility in the eyes of the Icelandic public. Many customers have lost considerable amounts of money in the form of stocks, funds and other investments. Household debts, loaned in foreign currency, have more than doubled since the decline of the Icelandic Krona. Ironically, in favour of the banks, since all three enjoyed the same fate, customers don't really have any way of expressing their frustration. We have the option of switching banks but since this is a service that practically everyone needs and the banks were all relatively equally guilty, switching seems to be more of a bother than anything else.

When the government took over the 3MB's they issued guaranties that the banks would fix these loans and stated that individuals wouldn't become bankrupt for high mortgage reasons. Fixing these loans however required enormous capital and a well thought out plan that would help the ones who needed the most. While they tried to think of a plan however, creditors partially took over the banks leaving the issue half open if the banks were still responsible for enforcing the government's guaranty that the loans would be fixed?

Following the fall of the banks it is apparent that their image and reputation was severely damaged. But when you start looking you will find answers. Before that you will only find the bankers story of bad luck stating that the banks bankruptcies was caused by the perfect storm, unpredictable event that started with the bankruptcy of the American bank Lehman Brothers. Soon after the 3MB's bankruptcies, questionable things started to resurface. One by one, strange behaviour and business deals have come to light either as news or rumours. But now after the report came out made by the SIC, different reflections of some of the unethical business deals that led to the bankruptcies of the 3MB's have come to light. Heated

disputes are still ongoing regarding the bankruptcy of Landsbankinn's Icesave accounts where in 2008, the British Government felt forced to put Landsbankinn on a list of terrorist organizations along with Al-Qaida, Taleban's and North Korea. Foreign investors have lost interest in investing in Iceland and evaluation organizations i.e. Moody's and Fitch are classifying the Icelandic economy's credit as junk bonds.

Despite the 3MB's actions and their recently disgraced image and reputation, customers still continue their business with their previous commercial bank. Since the beginning of 2009 Islandsbanki and Arion have made some rebranding efforts while Landsbankinn has done very little. Despite Gudlaugsson (2008) research showing that of the 3MB's, Landsbankinn has suffered the most blow to their reputation, his researched showed that only 4% of the customers were switching banks. Oddly enough, that is approximately the same number as what is considered normal even in a stable economy. This leaves us with the banks perspective. Disgraced, with a negative image and reputation the banks have to continue their normal business. They have to respond to social pressure to regain and retain its stakeholders trust and rebuild their image and reputation. Would the ideal next step be to rebrand or stick to your old one? In the following chapters I will look into corporate branding and rebranding, how it affects numerous things e.g. image, reputation, identity and corporate social responsibility.

## **1.2 Research question**

With great power comes great responsibility. Access to unlimited amount of money and weak regulations gave the bankers freedom to pretty much do what they wanted. But one might suggest that the 3MB's are at least partially responsible for the Icelandic economies financial crisis, at least until proven guilty. Even though the banks were bankrupt they are still a necessary part of the economy and the revived organizations might have to work hard to revive their reputation and build strong, trustworthy brands again. In this thesis I will examine the customer's perception of the 3MB's rebranding attempts and the corporate social responsibility or responsiveness that follows the reconstruction of the economy. I want to look into if

the rebranding efforts of the banks are perceived as genuine or an empty disguise i.e. a rebranded version of their former selves:

**RQ:** How are the rebranding strategies of the three major Icelandic banks perceived by its customers?

### **1.3 Purpose**

The purpose of this thesis is to gain understanding of rebranding of a disgraceful organization during a financial crisis. It will be a modest attempt gain insight into customer's perception of a changed identity and how it affects the organization's image and reputation. My focus is to look into if rebranding efforts are perceived any differently when implemented as a corporate social responsiveness strategy.

### **1.4 Method**

This research is based on a case study of three Icelandic banks. Through qualitative interviews and analysis rebranding efforts I will explore how customers perceive their rebranding attempts and analyse its effects in this particular economic environment. In order to gain insight to what the banks have done, and need to overcome I have read the SIC report, FME subpoenas, newspaper articles and more. Books and articles on related theory were used for deeper reflection of the subject as well.

### **1.5 Relevance**

By investigating the customer's perception of changed image I believe I can gain a deeper understanding of the affects of rebranding of disgraced organizations during a financial crisis. This could be an interesting for researchers in the fields of rebranding or corporate social responsibility and responsiveness, especially considering the ongoing financial turbulent in Southern Europe where e.g. Greece, Spain, Italy and

Portugal need to restructure their financial system and regain trust from the global financial markets.

## **1.6 Limitations**

I decided to interview personal customers but customers in the banking sector can e.g. be divided into two groups, organizations or investors and public customers who focus on their own personal finance. After the financial crisis, money circulation in Iceland has been limited and thus stock markets almost in a state of hibernation until money circulation starts flowing again and therefore I decided not to include investor's perception of change influence the public perception. The specifics economic and cultural influence can complicate generalization as well as the fact the while the thesis was being written, the public was still receiving numerous information about the bank owner's previous actions. The constant flow of *new* information was not my only problem, the disappearance of *old* information caused some troubles as well. While gathering information about Kaupthing/Arion I had used information about their history from their website ([www.arionbanki.is](http://www.arionbanki.is)). Before I had finished the subchapter, Arion had removed all information about Kaupthing's history from their website. There is also debateable how many interviews are enough to evaluate a general perception from a 'normal' customer.

## **1.7 Thesis Structure**

In order to provide a relevant and knowledgeable insight into the above stated research question, the following structure is used in my thesis. In the background a broad understanding of Icelandic economic situation is established, hinting the need to rebrand the 3MB's.

The second chapter provides my methodological consideration by introducing the reflexive approach with the influence of hermeneutics and social constructionism.

Furthermore I will explain the interview setup, data processing and evaluate the validity of my work.

The third chapter focuses on establishing a deeper theoretical framework on relevant theories for this research, i.e. rebranding a disgraced organization. I will discuss how rebranding an organization can affect other related topics such as a brand identity, image, reputation, CVI and CSR2.

In order to provide the reader with the necessary understanding of the investigated companies the fourth chapter introduces the case study of each of the 3MB's, their history, decision leading to their bankruptcies, older image researches and introduction of rebranding efforts.

In chapter five I analyse the comments of the interviewees to provide my interpretation of their perception of the banks rebranding strategies. It also includes a conclusion where I summarise my findings and explain my contribution to the theory.

The sixth and last chapter ends with a brief discussion about the applicability and the contribution of my findings..

## **2 Methodology**

In this chapter I will provide methodological reasoning for the thesis. It will be explained and argued why my chosen methods are relevant to the research problem. The thesis is built on my interest in rebranding, image and the gravity of the 3MB's disgraced reputation. I was interested to know what the banks were trying to do to reclaim their customers' trust. I will explain the method I have applied while conducting my interviews and while analysing data.

### **2.1 Case study**

The mighty fall of the Icelandic economy provided me with a lot of options for a case study. I found it compelling to analyse all of the three major Icelandic banks since they present the majority of banking options for Icelanders. A case study is an in depth study of an organization over a period of time (Easterby-Smith, Thorpe & Lowe, 2006). Case studies have a distinctive in evaluation research where the most important application is that the case study can help to explain casual links in real life that are too complicated to explain surveys or experimental designs (Yin, 2003). The case study is ideal to explore situation where intervention is being taken without having a clear set of outcomes like with the 3MB's rebranding efforts. Some researchers (e.g. Bryman & Bell 2007) voice their concern over the ability to generalize by using case examples. This is partially true in my case since the size of the economy played a role. It is difficult to imagine that this could happen in e.g. U.S.A. or Great Britain where they would experience a complete economic annihilation and the majority of customers perceived switching options would be limited.

There were difficulties analysing the 3MB's rebranding strategies since it is an ongoing effort where new information or solutions were introduced while the thesis was written. The SIC report on the 3MB's bankruptcy causes was also published in the midst of my thesis which influenced peoples perception of the organizations reputation and image. There were also differences in rebranding strategies which made it interesting to compare their impact on perception.

## **2.2 Method**

Based on my purpose and research question I have chosen to use qualitative methods in the form of in depth semi structured interviews and well as empirical material analysis. As I am interested in people's perception of the banks solutions and rebranding strategies the interviews provided me with information's that capture the perspective of the recipients (Corbin & Strauss, 2008). The empirical data in this study was collected from case studies of all the three major Icelandic banks and from examples of other companies faced with disgraceful corporate social responsibility issues, e.g. Carbon Union and Nike. The case studies are important if the one wants to answer how and why questions (Yin, 2003). It can be difficult to generalize since each culture can have their own means of doing things so this study is more an attempt to gain insight into how corporate rebranding is perceived in disgraced organizations.

## **2.3 A Reflexive Approach**

There are numerous different qualitative methodologies available to approach a research question scientifically. To avoid a one sided emphasis I opted to adopt a couple of methodologies to generate a deeper understanding of the empirical material. This implicates epistemological as well as ontological considerations under the assumption that the social reality in my thesis can actually be observed and explored, and that my theoretical contributions and conclusions, even though they derived from a very particular circumstances, can be valuable for further research. For the reason that my analysis is based on empirical material related to the 3MB's, the wider society would be to an extent marginalized by only using hermeneutics. Selecting methodologies can differ in context of what you are looking for, e.g. critical theory intends to critically analyze existing social structures to uncover oppression and power relation while hermeneutics emphasize the understanding of parts and wholes along with interpretations and the interviewee/author's neutrality (Alvesson &



Sköldberg, 2007). On a more generic level, my interpretations are characterized by a dynamic interaction between different interpretive levels.

From a social constructivist perspective the ontological orientation which lays the foundation for this thesis is non-essentialist (Calas & Smircich, 2006). What this means for the research is that the way the concept of image and reputation is understood and articulated comes from historical experience and interactive processes that the actors engage in to understand this concept, or in other words, the way the interviewees in my study describe their perception of image is based on their beliefs and understandings at that particular time. I do not believe that image, reputation or anything else within the social sciences may be pinned down as a concrete and absolute object, e.g. image may be described differently depending on the culture, socialization, and relationships of my interviewees.. My approach supports a non-essentialist perspective in which I may develop theories while respecting that nothing is permanent and generalizations should not necessarily be made outside of the present context (Simina & Hamel, 2005).

The epistemological constructivist assumes that learners are able to construct their own knowledge by interacting with their social and physical environment (Simina & Hamel, 2005). It is therefore necessary keep this in mind when trying to understand the concept of image as its perception can frequently change based on what is going on in the society, by continuously building on existing framework. In relation to my thesis the customer's perception of the 3MB's image is constantly changed through aggravation from the society and media in the form the banks' positive rebranding attempts and newly discovered negative transaction from the previous bank owners. The purpose of the thesis is to pursue meaning and understanding of the concept as it is experienced by the individual rather than the attempt to explain or define causal relationships.

## **2.4 Data for building the case studies**

Qualitative methods facilitate the study of issues in depth and detail by approaching fieldwork without the restriction of fixed categories in an analysis (Patton, 2002). To

begin with it is beneficial to perform most of the document study to be familiar with all aspects of the rebranding and image reconstruction of the banks.

The main text for analysis will derive from semi-structured open ended interviews where questions will be clear and short with the chance for the interviewee to think about his/her answers while allowing flexibility in his answers so he can speak freely about what concerns him in retrospect to banks brand and/or image. I will however critically analyse the interviewee's answers and try to make the best interpretation out of it. Most of the interviews had to be conducted with more modern means for geographical reasons. To interview various Icelanders I used the computer software's Skype and Google Talk along with normal telephone calls, therefore relying on field notes for the analysis.

The secondary data was collected from materials, such as books, articles, course literature and other publications that were linked to our topic in order to reflect on the primary data. I also studied press articles, the banks' statements, advertisement and other means of influencing the common perception about the banks.

## **2.5 Interview Setup**

The interview technique of qualitative semi-structured open ended interviews was chosen based on the assumption that such dialogue would bring forth the interviewee's experiences, ideas and beliefs and would allow for some understanding of how individuals conceptualize the social phenomenon of image (Alvesson, 2003). In interviews, researcher gathers data that cannot be statistically interpreted, e.g. expressions, choice of word, body language and symbols (Clarke & Dawson, 1999; Neuman, 2003). Furthermore, the qualitative researcher looks at interpretations as a creation of meaning in an explicit situation, since doing qualitative research is just as complex and chaotic as everyday life, meaning that the researcher has to find details in the precise particulars such as peoples' understandings and interactions (Silverman, 2010). During the interviews I am using a hermeneutic interpretation of people's feelings, experience, opinion and knowledge. My interviewees consisted mostly of middle- and lower-middle class

individuals. The majority of them didn't take any part in decision making for the banks post and prior to the crisis. All of them will be in business with the banks, some being owners of companies to get a little different perspective. I chose these types of people since I believed that they represent the majority banks customers; are the ones that did not gain much during the Iceland's economic expansion but have to deal with the consequences of the bank owners actions.

Throughout the interview I asked some of the 3MB's customers how they perceive the rebranding and image recreation attempts of the 'new' banks. The benefits of an open ended interviews is that it is an open exchange of opinions and feelings, where judgements are stated and one attempts to persuade the other of a particular point of view (Neuman, 2003). The topics can rise and fall where either person can introduce a new topic, often leading to something that wasn't anticipated but is relevant or interesting.

I developed an interview scheme which can be divided into three sections. In the first section I tried to bring forth the customers knowledge of the 3MB's bankruptcy, i.e. the underlying reasons of the current economic difficulties. In the second section I wanted to know to what extent the customers have noticed the rebranding strategies and how they perceive and interpret each change (e.g. name change, logos and service's). In the last section I inquired about the customers' action, reactions and expectations.

An average interview took between 50 to 80 minutes; depending on availability, the customers' knowledge and motivation. Most interviewees were at the comfort of their own home which should have guaranteed a quiet and stress free environment. Repeated access to interviewees allowed me to bring follow up question and ask for clarifications. It proved necessary in light of the constant flow of new information that influenced peoples perceptions as e.g. the introduction of the SIC report. The interview topic guide I used in order to touch upon all topics with each interviewee can be found in appendix 1.

## 2.6 Validity, Reliability and Objectivity

Validity refers to the level of authenticity concerning the reflection of the studied phenomenon, and refers to if the data; or as in my case the interviews, articles and the SIC reports, will display a true picture of what is being studied (McNeill & Chapman, 2005). By analysing my interviewees' comments the data produced becomes a subject of interpretation of their socially constructed world. This does not insinuate that I or the interviewees are lying; they are saying what they believe is true. But since this is a qualitative research I am more interested in authenticity, i.e. giving a fair and honest account of a social life from someone who experiences it every day (Neuman, 2003). Since the researcher is the primary instrument for the data collection and can adapt his external input to prove high internal validity. This study focuses on perceptions and perceptions are always under continuous development. Most of the SIC report along with the interviews and news articles were in Icelandic. To my best abilities I have tried to exclude my bias and misinterpretations. Furthermore we need to bear in mind that there is a chance that the interviewee may willingly or unwillingly have left out information that he or she thinks is un-necessary but could have influenced my perception and interpretation. Since this research is based partially on interviews we must bear in mind that it's based on my interpretations on the interviewee's stated perception of truth. I did not observe them in their daily routine to verify their perceptions.

Reliability revolves around the dependability or consistency. It concerns the repetition of the method. That is, if the research result will be the same if the same researcher or someone else would repeat it by using the same method (McNeill & Chapman, 2005; Cohen & Manion, 1994). Since this is a qualitative research then the reliability can have a different meaning since it has the possibility to reflect reality at the time of its collection. Two factors can highly influence the reliability, one is the pre-understanding and the bias of the researcher and the other are factors that influence the atmosphere of the interviewee like workload, co-operation with co-workers and so on.

Objectivity is one of the main tools in ensuring the reliability of a research. It means that the researcher should not let his personal values and biases influence his research (Macionis & Plummer; 2005). It represents the importance of interpretation,

whether you approach a topic with an open, impartial attitude or if it has been tainted to be biased by your own pre-understanding of the subject.

In summary, this chapter provided a brief overview of methodology used to explain how I analyse my data, material and people's perceptions. In the next chapter I will provide the frame of reference needed to analyse the rebranding procedure.

### **3 Frame of reference**

Organizations spend almost endless amount of time and money to build up a brand. But faced with a dilemma that threatens the image and reputation of the brand the organizations often need to take a decision. Should they stick with their own brand by reinforcing it while trying to overcome the dilemma, or should they take an even bigger step and decide to rebrand.

Kaupthing's, Glitnir's and Landsbankinn's behaviour and transactions prior to their bankruptcies can be viewed as questionable or even disgraceful. The post bankruptcy versions of the banks were left with a number of decisions to make; how could they deal with the social demands of the society; to rebuild trust in commercial banking and ensure the general public that this could not happen again? Furthermore the revived banks needed to decide if they would try to rebuild their name and identity, or if their name and identity was so disgraced that they would have no other choice but to rebrand.

The main purpose of this chapter is to present the relevant theories for the purpose of this study and to clarify definitions of the relevant concepts. Since the main question is how the rebranding of the three major Icelandic banks is perceived by its customers, it is important to introduce concepts of: branding, corporate social responsibility, corporate social responsiveness, rebranding, corporate visual identity, brand image and reputation. In order to fully grasp the reasons behind rebranding of a disgraced organization, we will look at corporate social responsibility (CSR) and corporate social responsiveness (CSR2).

It will start with general notions of brand and corporate brand management. After that I will go into how CSR and CSR2 can force organizations to rebrand. The following subchapters go into rebranding, i.e. what it is and what has to be avoided, and how or why alterations of a brand can affect e.g. image, reputation, loyalty and identity. I will then look into theories on corporate rebranding, such as name changes, logo's and slogans. The theories employed will provide a foundation for further evaluation of existing rebranding and corporate social responsibilities and can be connected to the purpose and the research questions of this thesis.

### 3.1 Branding

The concept of branding is a huge factor within marketing and it is often equally appropriate to either a service or a product. Although I will touch a little on the difference between product branding and service/corporate branding, most of my focus will be on the latter. While product branding can focus more on quality and price, corporate branding requires greater emphasis on internal marketing by recruiting and training staff to deliver the brands promise (McDonald et al., 2001). A selection of a service provider is often based on pre-purchased evaluations where the customers' decision is based on prior experiences (Fitzgerald, 1988). Kotler and Keller (2006) argue that branding is all the marketing strategies that increase the value of a product or a service by reflecting the ideal image to customers. They further highlight that branding is therefore an important factor in differentiation and development of meaning for different kinds of service providers and that is why more and more organizations are willing to invest in it. According to Keller et al (2008), branding is not limited only to products, since it can also be applied to service, organizations, persons and places. The American Marketing Association, AMA defines brands as: "A brand is a name, term, sign, symbol or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors" (Kotler and Keller, 2006; 274). The financial and insurance sector has had some problems with differentiating themselves from their competitors (de Chernatony & Dall'Olmo Riley, 1999). When managing brands in the financial sector, we have to bear in mind that most customers purchase financial products not for the product itself but as a mean to acquire something completely different, e.g. a car or a holiday (Denby-Jones, 1995).

Kaikati & Kaikati (2003) argue that a brand has four major elements that underlie its equity: the brand name, loyalty, perceived quality and brand association. They further state that powerful brands can still fetch a hefty sum for their respective owners even after the organization has been declared bankrupt. It is easy to find examples of this when brands can be sold for considerable amounts at bankruptcy auctions. This is however usually the case for products but I think it is more difficult,

but still possible to find service providers that still have a powerful brands after they have been declared bankrupt. If a service provider that has a strong brand is bought from a bankruptcy auction, chances are, if not for a changing external environment, the revived service brand will have to change in order to refrain from their previous fate. It will be difficult to change the service without affecting the projected image or reputation of the service.

Managers tend to focus their branding on competitive advantage. But branding alone is not enough to retain competitive advantage (Keller, Sternthal & Tybout, 2002). To be able to increase your advantage it is necessary to analyse your competition, be open minded about opportunities, control your threats and be open for co-operation. Porter (2008) highlights the multiple forms of changes as not only from the competitors but also from governments. The forms of changes can be e.g. technical or social but they can force managers to be on constant lookout for new opportunities and threats.

Corporate brand management is a dynamic process in where the organization makes continuous adjustments of culture, image and vision (Hatch & Schultz, 2003). While striving towards globalization, organizations have shifted their marketing emphasis from product brands to corporate branding (e.g. Aaker, 1996; Balmer, 2001; Dowling, 2001; Harris and de Chernatony, 2001; Kapferer, 1992). The underlying reason is ascribed to the difficulties of maintaining a credible product differentiation when imitations and identical products and service flow through the market (Hatch & Schultz, 2003). Corporate branding brings to marketing the ability to use vision and company culture as a unique selling proposition (Balmer, 2001). While product brands mainly target customers or consumers, corporate brands must contribute to the images formed by all of the organizational stakeholders. To be successful, corporate brands depend on total corporate communication that is from both of internal and external stakeholders in a coherence of expression (Hatch & Schultz, 2003). Values and emotions symbolising the organization are now key elements of differentiation, with the organization itself moving to the centre stage.

There is a very thin line between culture, identity, image and even branding. Dewey (1934; cited from Hatch & Schults 2002; 1001) suggested that culture can imbue identity artefacts with meaning. The artefacts then carry meaning from cultural



understanding to the cultural surface and then become available for self-defining, identity forming processes. These identity artefacts can be for example a logo, name, etc., or in other words symbols that express who or what the organization is.

Rindova and Fombrun (1998) noted that organizational identity can also be unintentionally projected. Images are therefore not only projected through the official, management-endorsed communication in advertisement. It can also be transmitted by organizational members at all levels of the organization. Other researches have concluded that image is a key factor for a successful branding (Brown, Dacin, Pratt & Whetten, 2006).

Today many banks are suffering from weak image and the 3MB's are no exception. Krebsbach (2006) argued that banks brand is the most delicate factor that influences image and therefore it should be nurtured. Since banks products or service are in their nature very similar then branding can help differentiating their products or service from their competitors (Saunders & Watters, 1993).

### **3.2 Corporate Social Responsibility (CSR) and Corporate Social Responsiveness (CSR2)**

The modern financial system is a complex phenomenon, guided by many rules, with some that can be interpreted differently, favouring different parties. None of the 147 individuals interviewed for the SIC report (2010) admitted to have been responsible for any behaviour or transaction that led to the bankruptcy of the 3MB's. This brings the focus on the corporate social responsibility and their part in the ethical and social obligation in today's society. Carrol (1999; 298) defines CSR as the firm's objective to make profit, be ethical, obey the law and be a good corporate citizen. Sethi (1975) highlights three different corporate behaviours: social obligation, social responsiveness and corporate social responsibility. Sethi goes on and argues that social responsibility implies that firms have to improve their behaviour up to a level where it is congruent with the prevailing values, norms and expectation of performance (Sethi, 1975, cited in Carroll, 1999: 279). Social responsiveness however ensures that the corporate behaviour fits the social needs and social

responsibility of business includes the economic, ethical, and legal expectations that society has from corporations and any given time.

It is possible to interpret corporate social reporting as a tool companies engage in order to affect public's perception of the organization (e.g. Brown and Deegan, 1998, Neu et al, 1998). Major social incidents such as the Exxon Valdez oil spill and the chemical leak in Bhopal India, create a public pressure and increased media attention that force organizations to respond to build up of negative corporate image (Hooghiemstra, 2000). Research supports that the amount of social and environmental disclosures are particularly high when the organization, or the industry it operates in, faces a predicament in the form of i.e. pollution, human rights, prosecution, et cetera (Deegan & Rankin, 1996; Deegan, Rankin & Voght, 1999). When facing this kind of pressure, companies can adopt four possible strategies (Lindblom, 1994; quoted from Hooghiemstra, 2000; 56): (1) the organization can inform its stakeholders about the company's intentions to enhance social performance, (2) the organization tries to influence the stakeholder's perception of the negative events without changing its behaviour, (3) distract and divert attention to a more positive event, which is not necessarily related to the negative one, and (4) try to influence stakeholders expectation about its behaviour. Dutton and Dukerich's (1991) research shows that organizations early response is usually in the form of denial. This brings the discussion around to corporate social reporting which is aimed at influencing people's perceptions about the organization where management willingly reports 'good' news and is reluctant to report the 'bad' ones (Deegan & Rankin, 1996). Reporting news in this manner enhances society's perception of the organization, while trying to justify its continued existence (Guthrie & Parker, 1989). Organizations that operate in an industry that has negatively experienced a major social incident, often respond in the manor of increasing their coverage of counter negative efforts in their annual reports (Hooghiemstra, 2000).

Shrivastava (1995) criticises the existing conception of CSR for being Western centric, anthropocentric and marginal to business practice. He proposes an alternative where sustainable development along with crisis prevention and management are the key issues. There are a number of issues that fall under CSR e.g. "...ecology, as one of the myriad social issues that confront corporations, along

with class, race and gender discrimination; business ethics and fraud; corporate philanthropy; minority concerns; community welfare; stakeholder demands; and so forth” (Shrivastava, 1995; 213-214).

Shrivastava (1995) further highlights three popular positions on CSR. One is the notion of *free markets* where firms only responsibility is to make profit and the market itself can handle all problems since the consequences are not very severe. Appropriate behaviour will be handled by creating economic incentives and disincentives. The second position highlights that corporations have significant environmental side effects that can be handled by *reforming corporations*. Responsibility for reformation is in the hands of the government, companies and communities in partnership. The third and final position falls to those “who believe that modern corporations are the root cause of environmental crises. They are designed to exploit the natural environment. It is their core purpose-their basic logic-to convert environmental resources into market-valued commodities” (Shrivastava, 1995; 214). Those who support this notion call for *radical transformation* of the economy since organizations cannot be modified or reformed. I support a combination of the reforming corporations and the radical transformation since organizational decisions are centred on their own financial concern. Business is moving away from a *trust me* past where people trusted organizations to do the best for the society, to a *tell me* or *show me* world, where organizations have to demonstrate that they are indeed doing the best they can for the society (from the Shell report 1998, cited from Hooghiemstra, 2000; 63).

While analysing the role of CSR, it is worth mentioning examples of Nike’s working condition scandal in Indonesia and the chemical leak in Bhopal, India.

In 1993 CBS reported a story about Nike’s working conditions where workers were paid nineteen cents an hour and only got permission to leave the barracks on Sunday’s. Nike initially denied responsibility, claiming the company couldn’t be accountable for the action of independent contractors. Nike did however draft a code of conduct and a memorandum of understanding, addressing the working conditions at their supplier’s factories. Critics however argued that there was little credible

evidence that conditions had genuinely improved (Vogel, 2006). Companies continue to be held accountable for their supplier's actions in the eyes of the external stakeholders. Suppliers are expected to uphold the standard and values of western standards, even though they are from a far away country or continent. Even though Nike sets standards for their suppliers, it would take enormous effort to enforce compliance of all suppliers and a CSR contract does not mean that they will be fulfilled.

Shrivastava (1995) investigated Union Carbide's operation in a pesticide plant in Bhopal, India, but in December 1984 a major industrial accident occurred, killing 4.000 people and injuring 300.000, of whom 100.000 were seriously and permanently impaired. Despite their stated policy of worldwide safety and environmental standards, the Bhopal plant had lacked the above standards although they were present at the company's similar plants. The plant had not been profitable so to cut losses they had operated with minimum personal and safety standards. The accident had devastating effects on the firm, with stock prices plummeting and stable investors abandoning it. Three months later the company declared the accident was caused by employee sabotage, accepting moral responsibility but rejecting legal liability. Union Carbide distanced itself from the Indian subsidiary, which operated the plant, blaming most of the failures on it. They unsuccessfully tried to help the victims while at the same time fighting them in bitter court battles. In August 1985, Union Carbide was rebranded as GAF Corporation after a takeover. By 1987 they emerged as a smaller but profitable company. Ten years after the accident GAF reached court settlements that weighed heavily on the organization. Shrivastava concluded that "the lesson for corporations is that accepting corporate responsibility is not only ethical matter but a matter of long-term survival" (1995; 225). By accepting their social responsibility corporations can limit damage from unforeseen accidents.

The main difference between corporate social responsibility (CSR) and corporate social responsiveness (CSR2) is that CSR is guided by prevailing social norms leading to pre-action while CSR2 reacts to a previous incident and ensures afterwards that corporate behaviour fits to social needs by responding to social pressure (Wartick & Cochran, 1985; 763). It is however not always clear when an organization has been responsible or has shown responsiveness. On paper, Union

Carbide showed signs of CSR with their stated safety policy but the true conditions of their factory, along with their responsiveness after the accident, proved to be less than substandard. In Nike's example there is a question of when their responsiveness to the working condition can be considered good enough.

Hypothetically, is it possible that they knew already about some questionable working conditions? If so, will Nike be recognized as showing good examples of corporate social responsiveness when reacting to the condition only after the media or general public finds out? The likely answer is probably going to be yes as long as the public doesn't find out about their previous knowledge.

When faced with an incident that threatens the image or reputation of a brand, the organization must decide the course of action or how to respond in order to regain it. According to Frederick (1994) CSR2 refers to the capacity of an organization to respond to social pressures, asking questions like: can the organization respond? Will it? How does it? To what extent does it? Faced by this dilemma, many organizations turn to rebranding. And since that is exactly what the 3MB's did in Iceland, then it will be the focus of my next subchapter.

### **3.3 Rebranding**

When a company attempts to change an already existing perception of a brand in the mind of the stakeholders, the process is characterized as rebranding (Muzellec & Lambkin, 2006). According to Stuart & Muzellec (2004) there are a number of circumstances that influence the decision to rebrand an organization. The first one is mergers, acquisitions and divestitures that press organization to rebrand as the old names, slogans can be inappropriate as a consequence. Other reasons are e.g. shifts in the marketplace caused by competitors, either new or with a merger of others, and changed economic or legal conditions. Another motivation is a change in competitive positioning, i.e. where outdated image and reputation problems drive the urge to create a new Corporate Visual Identities (CVI's) in order to try to stand out from the crowd. An arrival of a new CEO who wants to make his mark on the organization has been quite compelling reason for corporate rebranding as well. The

CEO's wish to arrive like knights in shining armour by making a significant image and reputation changes are often flawed since their efforts are focused on changing the organizations outward appearance in stead of focusing on the more difficult inner structural problems. The final reason they mention is a change in the external environment where organizations try to distance themselves from their social or moral baggage, attempting to create a new and more socially responsible image, as in the case of the 3MB's that follows, therefore I will emphasize more on this particular reason.. Many companies undergo rebranding exercises in the belief that changing their name and/or logo and slogan is perceived as a new, marvellous beginning for the organization, one with a new positive image. It is very difficult to measure a success or failure of a rebranding strategy but despite this lack of measurement procedures, companies are often quick to contribute better performances to their rebranding decision (Stuart & Muzellec, 2004). The main drivers for rebranding are decisions, events or processes that cause a considerable change in the company's structure, strategy or performance to suggest the need for a fundamental redefinition (Muzellec & Lambkin, 2006). A standard marketing practice regards branding as building and maintaining strong brands over a long period and consistent support will result in market share gains, sales and customer loyalty (Stuart & Muzellec, 2004). A rebranding strategy therefore sounds a bit contradictory. By changing a brands name, an organization risks losing all the value that the old name signified which challenges traditional marketing views in regards to brand equity (Aaker, 1996; Kapferer, 1998). The next subchapters focus on visual corporate rebranding since that is the strategy that the 3MB's have put their most emphasis on in order to influence their perceived image.

### **3.4 Corporate Visual Identity (CVI)**

There are a few characterizations of rebranding including the creation of a new name, term, symbol, or a combination of them to develop a new position in the mind of stakeholders (Muzellec and Lambkin, 2006). Hooghiemstra (2000) argues that corporate identity refers to the way an organization presents itself to its audience. This self presentation is continuously developed by its behaviour, communication

and symbolism where the behaviour has the most affect on its identity so it should be positively emphasised with its communication and symbols. While consumer goods brands often focus on specific products, service providers need to decide whether they will build the brand on a specific product or on their corporate identity (Olins, 1995). While traditional marketing mix uses the traditional *four P's* or Product, Price, Promotion and Placement; corporate identity branding requires additional 6 P's: philosophy, people, personality, perception, performance and positioning (Balmer, 1998).

Margulies (1977) among others argues that a decision to change a well-established identity cannot be taken lightly. This is particularly true regarding financial services organizations where the name, identity and image can play a huge role in attracting customers. It can therefore be a huge problem when they misidentify their corporate identity needs, transforming a weak image into a worse one.

A firm's corporate identity reflects its values, strategy, mission statement and characteristics. Their logo design and colour can be a vital aid to enhance this reflection (Hynes, 2008). A CVI is typically consists of the company name, logo and/or symbol, typography, colour and often other graphical elements (van den Bosch, Menno and Elving, 2005). CVI is therefore more than just a logo. It symbolizes the organizations identity by communicating and maintaining a solid, sustainable reputation. A CVI generally provides recognisability for the organization (Balmer and Gray, 2000) and therefore an organization must have a very strong reason for dissociation with its established CVI. Stuart & Muzellec (2004; 474) identify five types of changes of a corporate rebranding:

- Name plus logo.
- Name plus logo plus slogan.
- Logo only.
- Logo plus slogan.
- Slogan only.

A major change in a CVI requires a lot of time and investment in order to communicate the new name and/or logo, to emphasize the presence of changed organization by either explaining how it differs from its former identity or its competitors (van den Bosch, Menno and Elving, 2005). In order to maximise their results a development of a new CVI must start with exploring the organizations current corporate identity, culture, strategy, historical roots and structure. When the organization knows what it stands for and how it differs from others, a design process can start resulting in a new visual identity that fits the organization. Van den Bosch et al. (2005) claim that organizations make the mistake that after the strategy has been developed and a visual identity has been designed, the CVI appears to be taken for granted. They claim that nurturing a CVI will support visibility and influence reputation which works both in a positive and negative ways as e.g. a CVI on trucks in bad condition can draw negative attention to the organization behind the truck, reflecting how the organization is taking care of its fleet and personnel. Other examples include when names and visual symbols that represent an organization become linked with major scandals, they will need enormous efforts to regain trust and rebuild their reputation. An authentic, successful creation of a CVI will tell the story to its employees, helping them understand what the organization stands for giving them the material they need to positively develop the corporate image to its external stakeholders.

Van den Bosch et al. (2005; 111) argue that a good reason to change a CVI is when the organization wants to emphasise a change in their strategy. In the following subchapters I will take a look at what scholars say you have to bear in mind when changing or creating a new CVI such as a name, slogan and a logo.

### **3.4.1 A new name and slogan**

Changing a name is a risky move since it changes dramatically what is being communicated about the organization (Stuart & Muzellec, 2004). It also takes a lot of effort to find a name that is going to suit an existing company (Kellaway, 2002). The desire to build a global corporate brand has often led to the creation of a



disconnected corporate name that does not represent the value or the identity of the organization (Stuart & Muzellec, 2004). They further conclude that one should never underestimate the loyalty to the old name.

The name has to reflect the organization's personality in order to avoid the mediocre name changing trap (Dowling, 1996). For a name change to be successful, the organization must have a clear idea of why it is necessary to change and what they expect the results to be (Hatch & Schultz, 2003). Knowing why it is necessary is important since a name change alone will not modify their identity (Margulies, 1977). Consumers tend to feel more confident when buying a brand that draws upon a name of a well established firm. Goodwill can be built up over the years with continuous advertising and consistency where the new brand or name can gain acceptance by being linked with its heritage (McDonald et al., 2001). One might suggest that for the same reasons, disgraced organizations can face an uphill battle when the new name is constantly linked to the old one. Organizations should avoid confusing their customers with a new name if they otherwise face the same staff and physical evidence.

Stuart and Muzellec (2004; 478) argue that changing a slogan can sometimes help to support the introduction of a new name. They further highlight that an excellent slogan can enrich an organization while a bad or a silly slogan can undermine it; where e.g. journalists are often only too happy to pounce on a slogan and subject it to ridicule. The slogan change however, must not be excessive in order to have a significant meaning, as e.g. in the case of British Airlines when they shifted the emphasis of their slogan 'the world's *favourite* airline' to 'the *world's* favourite airline'. Stuart and Muzellec (2004) then conclude that a slogan change can be useful if the managers believe that the old slogan does not reflect the positioning of the organization adequately. But the managers should be wary that it is better to keep their current slogan than risk an adaptation of a new slogan that might be perceived by the stakeholders as a sign that the organization does not understand its identity.

### 3.4.2 Logo – design and colour

The logo can act as a mark of quality and therefore increasing the company's reputation. If managed correctly it can create competitive advantage and simplify company's communications to the market (Hynes, 2008). Logos appear on letterheads, television, packaging, annual reports, print advertisements and on business cards (Henderson & Cote, 1998) as well as vast amounts of company giveaways that carry little more than the company logo (Hayes, 1995). They are considered a vital recognition aid that speeds selection of a preferred product or service (Berry, 1989). By seeing and remembering a logo it can add value to the organization (Hynes, 2008). But it is only considered effective if it serves as a signature of the company. In order to do so it must link the shape, design and/or colour to the organization it represents. Logos are therefore one of the most powerful elements of the organization when establishing a new CVI. Fraser and Banks (2004; 12) stated: "it is no coincidence that the strongest use of colour is often found when someone is trying to sell you something". Some organizations have easily recalled logos but with unusual shape like i.e. Nike, Apple and Shell. Others have used colour to represent themselves as i.e. Coca Cola (red), IKEA (blue and yellow) and McDonalds (golden yellow on red). Colour is often an afterthought that the designer or managers decide upon without fully considering its psychological and strategic use (Dowling, 1994). Logo colour is very important because of its mnemonic qualities that enhance recognition and recall. When choosing a colour, managers must however bear in mind the 'temperature' of the colour and how it is perceived in each representative culture (Henderson & Cote, 1998). Temperature of colour can be used to excite people where the warm colours e.g. red, yellow and orange can mentally stimulate or even provoke customers and cool colour e.g. blue can have a calming effect. One must however bear in mind that each culture can have different interpretation of the same colour. While green may represent the friendly environment in some cultures, Malaysians link it with the jungle and disease. It is not possible to recommend a *right* colour for a logo but coincident or not; in a study made by Kaikati and Kaikati in 2003, they estimated that 70 percent of the Fortune 1,000 had blue corporate logo's.

After a logo has been designed and selected, considerable time and money must be spent to create positive effect, meaning and to build recognition for it. Henderson & Cote (1998) argue that a logo selection requires caution since some logo designs are not likeable, difficult to store in memory, or fail to create any sense of meaning. They further conclude that in order to change the corporate image, a new logo is required. But is there any such thing as a *good* logo? Peter (1989) argues that a logo must be familiar and recognizable, educe a common meaning to the target market and evoke positive effects. Henderson and Cote (1989) argue that the logo must be remembered and correctly identified, and be remind customers of the brand or the company name. Experimental research has shown that selecting an abstract logo design is a risky move since the average viewer has difficulty interpreting and recognizing abstract designs (Seifert, 1992). Henderson and Cote (1989) found out that very simple logos failed to create positive affect; slightly more elaborate logos were more successful and maintained interest and liking over time. They also found out that natural logos were considered more positive because they were more meaningful. Furthermore they state that some companies do not care about recognition, as the logo is only intended to give a professional look and creates a positive image (Cote, 1989; 24). Regardless of your logo creation strategy, Hatch and Shultz (2003; 1059) highlight the importance of knowing how your stakeholders interpret your corporate symbols.

The process of revitalising a corporate brand, by gradually modification of its position and representation can be a natural management response to an ever changing market environment (Aaker, 1996). Corporate rebranding seeks to redefine the corporate brand identity in a response to necessary changes in the organizations structure, strategy or performance (Muzellec & Lambkin, 2006). Identifying pitfalls for decision makers is necessary since corporate rebranding is an expensive exercise with potentials to ruin years of marketing efforts in corporate brand equity (Stuart & Muzellec, 2004).

### 3.5 Corporate rebranding pitfalls

As said before, corporate rebranding is an expensive procedure so it is important, once a decision has been made to rebrand, to refrain from making common rebranding mistakes. Gotsi and Andriopoulos (2007) identified four key pitfalls of corporate rebranding.

1. *Disconnecting with the core.* After a corporate rebranding, stakeholders tend to associate the new corporate brand with the previous brand name (Jaju et al., 2006). By completely changing the company's image and positioning, they risk departing from the firm's heritage and identity to an extent that stakeholders can be alienated from the company (Gotsi & Andriopoulos, 2007). Lack of understanding of organizational identity may affect the internalisation so that employees' beliefs, attitude and values does not support the new corporate brand promise (Hatch & Schultz, 2003). A gap between the strategy-determined brand identity and the stakeholders' expectation of the new corporate brand cannot always be easily bridged (de Chernatony & Dall'Olmo Riley, 1999).
2. *Stakeholder myopia.* Lack of consideration of organizational identity and culture can influence the values of the employees, making it more difficult to authentically proceed with their tasks.
3. *Emphasis on labels, not meanings.* This happens when too much emphasis is placed on a label i.e. a new name, logo or corporate brand values without translating what the change should mean for the staff (Jevons et al., 2005). This gap between labels and meanings of the new corporate brand can weaken employees' internalisation of the new corporate brand promise and fuel identity ambiguity (Gioia et al., 2000)
4. *One company, one voice; the challenge of multiple identities.* It can be difficult to voice a combined promise from multiple divisions, culture and identities within the organization. The problem continues after rebranding when stakeholders still reflect on their old identities and cultures. Is it possible that the 3MBs' sales representatives, whose culture supported the modern, exiting and risky capital adventures, will have problems identifying with safer, family oriented business strategies? Balmer and Wilson's (1998) research

supports this dilemma, where multiple identities where the alignment of organizational subcultures posed challenges to the corporate brand promise.

Kaikati & Kaikati (2003) analysed examples of four other pitfalls in rebranding campaigns:

5. *The heritage rebranding trap* where the brand nationality is either added or taken away. An example is the case of British Airways who changed its logo and the appearance of their airplanes to dispense with its 'Britishness'. The new look ranged from Chinese calligraphy to Maori tattoo design, trying to reflect its global customer base. According to Kaikati & Kaikati (2003), they completely overlooked the fact that their consumers used them because they were British.
6. *Following the global rebranding crowd blindly*. Multinational companies must carefully evaluate their rebranding motives and objectives. Consolidating multiple region brands under one global brand can backfire if i.e. the current brand loyalty or brand reputation is too strong as in the example of the Dutch supermarket giant that operates under 20 brands among other ICA in Sweden. Since ICA ranks among the best known brands in Sweden, switching to a more global brand could have disastrous effects on reputation and image.
7. *Merger induced rebranding temptations*. After merging companies, the next step is usually the launch of a mega rebranding campaign. If one member of the merger is not the obvious dominant partner then there is always the temptation of slapping the old company names together in attempt to enforce the perception that it is a merger of equals. Merging companies need to explore their option so they won't experience the same problem as the investment bank Morgan Stanley. The merger of Morgan Stanley and Dean Witter resulted in the name Morgan Stanley Dean Witter Discover and Co. The name was too long and difficult to remember, and finally the company shortened it to Morgan Stanley, the stronger of the two names.
8. *Celebrity rebranding snits*. The brand is re-branded after a celebrity's name e.g. when the 125 year old magazine McCall's was renamed Rosie after

Rosie O'Donnell, which ended in bitter dispute and lawsuits between the publisher and O'Donnell over editorial issues. O'Donnell quit from her namesake magazine only 18 months after their rebranding efforts, leaving the publisher seeking \$100 million in damages from the celebrity.

### **3.6 Image, reputation and Loyalty**

In order to avoid the above rebranding pitfalls it is important for the organization to fully analyse who they are and what they want to accomplish with their rebranding strategy. Brown et al (2006) introduce four viewpoints that organizations use to evaluate their organizational identity, image and reputation. These four viewpoints are:

1. Who are we as an organization?
2. What does the organization want others to think about the organization?
3. What does the organization believe others think of the organization?
4. What do stakeholders actually think of the organization?

The first viewpoint focuses on studying the aspects and definitions of organizational identity. As indicated in the viewpoint question, then this focuses on how the mental associations about the organization are held by its organizational members. The employees' perception of his organization identity can have a crucial role in its continuous construction.

The second viewpoint focuses on how the leaders of the organization try to influence its stakeholder's perception of the organization. Desire becomes the most crucial factor for this viewpoint. Here the leaders are trying to influence the future image and identity. Although marketing and branding can be the more obvious points to emphasise and strengthen this viewpoint you have to take into consideration that it can be just as important to 'hide' the company from one or more stakeholders. This can also be for example drawing the attention away from something you have or are done wrong. In a case of disgraced organizations this is a crucial factor in rebuilding its image and reputation.

The third viewpoint revolves around how the organizational members believe they are perceived by its stakeholders.

The fourth and last viewpoint focuses on how stakeholders actually perceive the organization. Usually this viewpoint is researched from an individual level perspective also with the adoption of what the individual might know or believe about the organization (e.g., Berens, van Riel, and van Bruggen 2005; Brown and Dacin 1997; Goldberg and Hartwick 1990).

For a service provider, image, trust and customer satisfaction can have a crucial impact on the client's commitment towards the organization (Ratnasingham, 1998; Rexha, Philip, Kingshott & Aw, 2003) and especially in the financial sector where the customer risk is even greater (Mukherjee & Nath, 2003). The research of Flavián et al (2005) shows that image and trust has no significant difference in intensifying the customer relationship duration in the normal banking industry. Their observations have however confirmed a significant difference in how image and trust influences the choice of financial service provider over the internet. However image alone may not be enough to create a competitive advantage but a positive image can get customers to resist temptations from competitive banks (Cohen, Gan, Yong & Chong, 2007). There is also a difference in consumer loyalty between the consumer goods sector and financial sector in the sense where in the former, loyalty is hard to win and retain but consumers in the latter are very reluctant to switch because differences in service can be negligible and not worth the possible disruptions (McDonald et al., 2001). Boyd et al. (1994) concluded that in the financial service sector, the average consumer knows little about the specific product and often they don't want to know anymore, content to assume that the best known organizations provide the best financial service.

Research has showed that successful branding supports customer loyalty (Keh and Lee, 2006). Customer loyalty can be viewed from behaviour, that is, how often the customer trades with the same organization, and psychological factors or the customer's attitude towards the organization (Odi, Odin & Valette-Florence, 2001). By continuing to select a certain brand over the other, you enhance customer loyalty. This decision is taken due to positive affects or emotional connection to it (Solomon,

Bambossy & Askegaard, 2002). Others have defined loyalty as those who stay with the company despite their dissatisfaction (Panther and Farquhar, 2004).

Panther and Farquhar (2004) analysed loyalty responses to in order to enhance understanding of how dissatisfaction in financial services affects it. Greater understanding of loyalty and exit responses can help marketers understand their consumers' buying behaviour in order to prevent customer loss and defection. But in order to prevent customer loss, companies must first be aware of their customers' dissatisfaction which points out the importance of satisfaction monitoring by the organizations. Their research showed that switching cost, ties and perceptions of alternatives are the most influential factors on the loyalty response. Porter (1998) defines switching cost as the cost the customer thinks he loses while switching a service provider. The cost isn't limited only to monetary cost since time and effort influence it as well along with losing the convenience of having the same service provider in a time of financial uncertainty.

Lewis and Soureli (2006) conducted an extensive research on banking clients in Greece. They concluded that customer loyalty consists of: perceived value, trust, satisfaction, image, service quality and service attributes. Other research has shown that image and trust can influence consumer behaviour (Ratnasingham, 1998) and that trust is a decisive factor in customer loyalty (Tax & Brown, 1998). It will therefore be interesting to see if the 3MB's can regain their customers trust, but trust and loyalty have been proven to positively affect internet commerce (Lin, Luarn & Lo, 2004) and in banking (Ball, Coelho & Machas, 2004). Trust can affect continuous business in the service industry (Grayson & Ambler, 1999) although other research has shown that customers generally uphold less trust to financial-, communication- and insurance organizations (Keller et al., 2008). Customer loyalty in banking research usually revolves around customer satisfaction (Colgate & Hedge, 2001) and they have also proven that customer satisfaction alone is not enough to maintain customer loyalty (Jones & Sasser, 1995). Flavián, Guinalia and Torres (2005) argue that amount of time spent as the banks customer does not strengthen the relationship between image and trust in a conventional banking industry. With increasing customer demands, image strategies alone will not be enough to create a competitive advantage (Chengiz, Ayyildiz & Er, 2007) although positive image can



get customers to resist tempting offers from a competitor (Cohen, Gan, Young & Chong, 2007). Leverin and Liljander (2006) argue that customer orientation is a desirable strategy in the banking industry since there is a strong link between customer loyalty and profit. It is therefore in the nature of the banking industry to seek strong interaction and customer relationships with wealthy customers since their customer orientation will result in increase profits and growth (Storbacka, 1997).

Corporate reputation is among others, one of the things that can affect customer loyalty. It can be defined as the perception of the organizations past actions and future prospects, describing their principals in comparison to leading rivals (Roberts and Dowling, 2002). Corporate branding and the companies communication can be seen as activities used to build their reputation (Bickerton, 2000). A company's reputation depends on "what people *think* is true and *feel* is important" (Zadek et al., 1997; 29). This perception of reputation is as mentioned above, one of my focuses in this research. Van den Bosch, Menno and Elving (2005) argue that a CVI should be included when evaluating and measuring corporate reputation. After a visual identity has been designed and a strategy has been developed, a CVI seems to be taken for granted. Their arguments are supported by Fombrun and Van Riel (2004) whose reputation model consists of five dimensions: visibility, transparency, distinctiveness, consistency and authenticity. Organizations have to try to maintain a good reputation as research of Fombrun (1996) suggests that organizations with good reputations can charge premium prices, get better credit ratings and attract more investors. A company's reputation or images are up to a certain point, beyond the organizations control because they are based on affiliation with its external stakeholders (Vandelö, 1998). Unlike brand identity, a brand's image and reputation represents how the brand is perceived. If the brand image becomes the brand identity then the external stakeholders, i.e. the customers are the ones that decide what the company stands for. A brand image reflects the past but the brand identity must look into the future and try to formulate how the organization wants to achieve a sustainable competitive advantage (Aaker, 1996).

### **3.7 Conclusion**

In summary, this chapter provided a brief overview of theoretical perspective needed to analyse rebranding strategies, what article writers deem a good strategy and highlight the importance of avoiding pitfalls. I have presented rebranding by referring to different definitions and relevant concepts that needed to be highlighted in order to get a more general knowledge of the parts to be able to understand the whole strategic concept of rebranding. In the following chapter I will introduce the banks in reflection to their history and more importantly, how they have been forced to rebuild their brand or even rebrand due to CSR2 reasons.

## 4 Presenting the Icelandic banks

This chapter provides the illustration of the 3MB's case study. Each subchapter starts with a brief introduction of each of the banks' history, followed by an illustration of the bank owner's actions that led to the banks' bankruptcy and disgraced their image and reputation. After that I will highlight older research of how the banks' image changed between 2004 and 2008 when the banks' globalization strategies were being implemented. The final subchapter will revolve around the rebranding strategies that the banks have implemented in order to influence their customers' image perception.

I will start by introducing the Kaupthing/Arion case, followed by the Glitnir/Islandsbanki case and end with Landsbankinn. A more general discussion and comparison will follow in chapter five along with an analysis of my interviews.

### 4.1 Kaupthing / Arion banki

Kaupthing bank was founded in 1982 but it was not until 1995 that their growth became noticeable when they became the first investment bank in Iceland<sup>2</sup>. In 2000 Kaupthing also became the first Icelandic bank to open a subsidiary in a foreign country, i.e. in Luxemburg. Soon after opening in Luxemburg, they opened more subsidiaries among others: Faroe Islands, New York, Stockholm and Copenhagen. The new subsidiaries were mostly investment consultants and mediators. The bank continued to grow and after acquiring a number of foreign subsidiaries Kaupthing were merged with Bunadarbankinn in 2003, which was a recently privatized commercial bank that was founded in 1929. A number of rebranding strategies followed the merger. The first one was a name change to Kaupthing Bunadarbanki which was changed again in 2004 into KB bank. Early 2007 the bank was rebranded again, and Kaupthing bank was 'reborn'. From 2007 to 2008, Kaupthing's

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<sup>2</sup> <http://www.kaupthing.com/?pageid=3803>

globalization plan was in full effect. They bought the Dutch merchant bank NIBC for €3 billion but as of late January 2008, Kaupthing decided to cancel the acquisition of NIBC. New subsidiaries also followed in India, Belgium, England and more. 2007 also marked the launch of the Kaupthing Edge savings accounts in the UK, Belgium, Norway, Germany, Finland, Sweden, Luxembourg, the Isle of Man, Austria and Switzerland. With these new accounts Kaupthing managed to attract multiple new customers with high return interest rates, covering £2.5 billion in deposits and 160,000 new customers. Kaupthing had increased dramatically but when the global financial crisis emerged, the house of cards fell and on September 10<sup>th</sup> 2008 Kaupthing was filed for bankruptcy.

The following subchapter illustrates some of the actions that led to the bank's bankruptcy and explains the reasons behind the bank's image and reputation problems.

#### **4.1.1 Kaupthing's pre-bankruptcy transactions**

In 2000 the bank opened a subsidiary in Luxembourg, opening up for their plan of globalization. Their subsidiary's focus was services for wealthy Icelanders and corporations. There they provided the same service as the other banks, i.e. to hide ownership of organizations. Soon after the millennium Kaupthing had a different plan; to build up clients that were big enough to support the bank's growth. Kaupthing helped the supermarket giant Bonus to gain ownership of a competitor named Hagkaup to form Baugur. Kaupthing was in charge of issuing shares for Baugur and helped them grow by buying as many shares as they could without affecting their rating. The Icelandic government sued Baugur's CEO, Jon A. Johannesson, for issuing fake credit accounts but more importantly with the trial the government gained insight into the close relationship of Baugur and Kaupthing. Kaupthing also supported the growth of Bakkavör which consisted of two brothers that started off making ready made food trays in a town populated by 10,000 people but the brothers were Kaupthing's biggest debtors in 2006 and are currently the 11<sup>th</sup> and 12<sup>th</sup> biggest Icelandic debtors. Two of the organizations that were created in Luxembourg were

Gaumur; that ended up as core owners of Baugur – and Exista that ended up being the core owner of Bakkavör. The loop was created as Exista became Kaupthing's biggest owner and debtor, by borrowing from the bank only to buy its shares. The SIC reports highlights that Bakkavör and other organizations owned by the brothers (e.g. Exista), were never as strong as the respected CEO's claimed they were and should never have had the credit for most of their investments. Later, Kaupthing supports Baugur investments when they buy a third of Glitnir (Islandsbanki) shares, making the loop even thicker. Kaupthing had with Baugur and Exista created the two biggest business empires in Iceland to support their own astronomical growth. Kaupthing further supported Baugur's globalization attempts by funding purchases of e.g. Iceland (an English supermarket), Magasin du Nord in Denmark, 13% in Debenhams and 12.4% in Woolworths.

It is not to say that all actions of Kaupthing had gone unnoticed. In 2003 news spread of increasing *options*<sup>3</sup> for the banks managers. Iceland's Prime Minister at the time, David Oddson, was outraged by the immense option deals of Kaupthing and publicly withdrew all his savings from the bank. Judging by the amount withdrawn it was though apparent that Kaupthing was not Mr. Oddson's main commercial bank but it did however serve as a statement for the news papers.

The news- papers publicity did not stop Kaupthing's CEO's from finding ways to get high and questionable bonuses. In 2006, the CEO's of Kaupthing were actively encouraged to acquire loans from the bank to buy extra Kaupthing stock at an option price. The SIC report (2010; ch.10.5.2.2.) reveals emails sent between the CEO's of Kaupthing, Kaupthing Luxemburg and Kaupthing Singer&Friedlander where they are encouraging each other to buy more of Kaupthing's shares with option rights, leaving all the risk to the bank.

There are a number of individuals that got extremely rich or at least a lot richer after being Kaupthing's customers. Robert Tchenguiz was already a known English business man, but after being a customer of Kaupthing, his business empire took off.

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<sup>3</sup> An *option* allows its owner an opportunity to buy shares in their organization in the future for today's price. If the organization has been successful and increased the price of its shares, then this is a guaranteed profit.

By buying shares in Exista he got financial access to Kaupthing which proved valuable when foreign banks wanted extra collateral when he defaulted on some loans. In January 2008 he receives his first loans from Kaupthing but by the time of bankruptcy Tchenguiz is the biggest debtor of the Icelandic banking industry.

In March 2008, when financial capital availability got more difficult, Baugur's trouble started to be obvious and Kaupthing's lawyers knew that without any action, Baugur's financial trouble would end up in bankruptcy. Kaupthing's supports 1998's purchase of Hagar. Hagar was a subsidiary of Baugur that handled all of their logistical actions, warehouses and related matters. 1998 was new but not surprisingly just another organization owned by Johannesson, Baugur's owner. Baugur then used the money to buy their own shares from its own biggest owners. In other words, Kaupthing helped Baugur's owners to get *their* money out of a near bankruptcy organization. The SIC report shows a number of similar incidents in 2008 when liquidation and access to loans are inaccessible. Kaupthing were constantly looking after the interests of the clients that helped make Kaupthing into the empire they were.

Kaupthing's actions are even stranger in the summer of 2008. Despite serious liquidation problems in the financial market, Kaupthing is able to loan the Russian millionaire Alisher Usmanov 30 billion IKR<sup>4</sup> who at the same time gains 1.5% ownership in Kaupthing in order to grow even bigger. Usmanov is today the 17<sup>th</sup> biggest debtor in the Icelandic banking industry.

The above examples partially illustrate the complex ownership status of Kaupthing. Landsbankinn's former CEO Arnason even stated for the SIC that he often wondered who was the real owner of Kaupthing. Regardless of who owned the bank it is apparent that Kaupthing's relationship with its customers was more interrelated than of Landsbankinn and Glitnir. Like previously mentioned, Kaupthing's bankruptcy has been investigated by the SIC but they are also currently under investigation by the British Serious Fraud Office.

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<sup>4</sup> Exact date of loan is not known. Exchange rate on e.g. July 1<sup>st</sup> 2008 was 1 EUR = 124.40 IKR. Source: <http://www.arionbanki.is/Default.aspx?pageid=283>

#### **4.1.2 Older research on Kaupthing**

Gudlaugsson (2008) made consecutive investigations of how students from the University of Iceland perceived the Icelandic banks' images. He based his criteria on 5 elements: trust, progressiveness, corruption, old-fashioned and service. He made a yearly investigation each spring from 2004 to 2008 therefore his research reflects the perceived images of the banks, prior to their bankruptcies. The following are conclusions of their perceptions of Kaupthing's image:

##### **2004**

Fresh but usually associated with corruption. The bank is defined as a large organization with diverse services.

##### **2005:**

A progressive bank but is more likely to be associated with corruption. KB banks' customers are least likely to be happy with their service.

##### **2006:**

KB bank is considered modern and progressive.

##### **2007:**

Kaupthing bank is considered modern and more likely to be associated with corruption. It is also considered to provide the least valuable service.

##### **2008:**

The bank is still considered modern and often associated with corruption. Kaupthing is considered to mainly think of its own interests and lack personal service.

The rebranding of Kaupthing can be viewed in a similar way. KB-banki had changed its name in 2003 which explains the perception of freshness. The link with corruption comes from news of increasing options and salaries. The bank continued to grow both in size, with more subsidiaries and increasing options & salaries. According to Gudlaugsson (2008) the rapid growth meant a more distant impersonal service was

perceived by its customers. The banks' initiation of their new architecturally cold and modern headquarters in 2004 did nothing but support the customers' perception.

### 4.1.3 Rebranding Kaupthing as Arion

Soon after the government had nationalized Kaupthing the bank was filed for bankruptcy. Immediately after the bankruptcy the bank was split into two parts; Old Kaupthing, a division with the banks' foreign subsidiaries and excess depts., and New Kaupthing, a division with everything *worth* salvaging. Soon after, New Kaupthing took over two smaller local commercial banks; Sparisjóðsbankinn and Spron. Spron had been considered customers biggest alternative to the 3MB's (Gudlaugsson, 2008) but the bank had crumbled, like others, from Baugur's depts.

On November 21<sup>st</sup> 2009, New Kaupthings' rebranding strategy took a new direction by changing their name and logo. The following is a press release from the *new* organization Arion:

“New Kaupthing Bank changed its name to Arion banki. The new name signals a new direction and new values. Following the restructuring of the bank in the recent economic turmoil at home and abroad, the bank is shifting its focus in response to the demands for change made by its customers and employees. A new name will also help eliminate any confusion among the public and the bank's business partners in Iceland and abroad.

The bank is guided by the values of professionalism, ambition, concern for others and loyalty, with the customer in the foreground at all times. The new name comes from Greek mythology and symbolizes perseverance, cooperation and new beginnings. The



bank held a competition among its employees to find a new name and Arion was selected from over three hundred entries.”<sup>5</sup>

A name change is usually followed by a logo change. Below are the three latest versions of the organizations logos. The black, modern logo of the wannabe globalized Kaupthing bank has been replaced with a brighter Arion logo with an abstract, blue picture of what can be interpreted as a snowflake.



Figure 2: Arion's former and current logos

In 2009 Arion had not changed the core idea of its advertising strategy in the sense that they still advertise products and service, just as before the bankruptcy. They do not advertise as much, nor highlight tempting offers but the advertisement focus on introducing and explaining their service<sup>6</sup>.

In 2010, Arion has continued their rebranding with a new board of Directors and a new CEO. In March 2010 the new board of Directors were introduced. It is apparent that Arion is responding to criticism by appointing directors with diverse educational background and broad experience in the financial sector. Another particular and interesting development is the introduction of two non-Icelandic members, individuals with a banking experience unmatched by most Icelanders. One of them is the new Chairwoman Monica Caneman, the former deputy CEO of the Scandinavian SEB bank, where she worked for 25 years. One of the first tasks of the new board of Directors was to hire a new CEO; Höskuldur Olafsson, who has experience as a

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<sup>5</sup> source: <http://www.arionbanki.is/?PageID=3785&NewsID=8898>

<sup>6</sup> Source: a marketing research made by Fortuna for Frettabladid 17.06.2009

CEO of Valitor – Visa Iceland along with numerous management positions at Eimskip<sup>7</sup>

#### **4.1.4 Arion's financial solutions**

My thesis does not revolve around detailed calculations evaluation for the banks foreign currency mortgage solutions. However I feel that it is important to introduce their solution since this is arguably one of the banks strongest possibility of a positive corporate social responsiveness strategy.

Arion's solutions are as follows:

- Correction of the foreign currency mortgage loans' capital to 110% of the property value. This solution is intended to satisfy the need of those who owe more than 155% the property value. The value of the total sum is transferred to an ISK currency loan with fixed or variable interest rates.
- Correction of the foreign currency mortgage loans' where the loans total sum is lowered by up to 30%. This solution is intended to satisfy the need of those who owe less than 155% the property value. The value of the total sum is transferred to an ISK currency loan with fixed 6% indexed interest rates.
- Icelandic mortgage loans are corrected to the loans' capital to 110% of the property value. Interest rates are unchanged.

In conclusion, Arion the biggest of the three banks has been for the last few years considered the most corrupted one with unsatisfied customers. The banks owners used Kaupthing as a tool to enhance their own wealth. One of the most disastrous things about their growth is that the Ponzi scheme, as explained in the introduction, left the creditors with little collateral when Kaupthing filed for bankruptcy. The financial gap left to generations to come is certain to influence people's perception of

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<sup>7</sup> Source: <http://www.arionbanki.is/?pageid=3785&newsid=8963> .Eimskip is one of the two largest freight organizations in Iceland.

their image. Further analysis of Arion's rebranding attempts is illustrated in chapter five. Up next is the case study of Glitnir or Islandsbanki as it is called today.

## **4.2 Glitnir / Islandsbanki**

The story of Islandsbanki is a bit special because the old Islandsbanki was founded in 1904 and has gone through a lot of changes since then. In 1930 Utvegsbankinn took over Islandsbanki's operations but 60 years later Islandsbanki was reborn through the merger of Utvegsbankinn, Idnadarbankinn, Althydubankinn and Verslunarbancinn. In 2000 it was merged with Fjarfestingarbanki Atvinnulífsins (investment banki) and was rebranded as Islandsbanki – FBA. In 2002 the name was changed again into Islandsbanki, removing the smaller division, FBA, from its name. In 2006 the bank went through a considerable rebranding procedure, renaming the bank Glitnir along with launching a new logo, new vision and a new more globalized strategy. After their 2008 bankruptcy, two organizations emerged – Old Glitnir and New Glitnir. The difference lies in the clearance of excess debts. To Old Glitnir and revival of viable parts that could prove profitable in the future, that were transferred to New Glitnir. The bank was then once again rebranded. Now as history repeats itself, their name has been changed back into Islandsbanki. The following subchapter illustrates why the last rebranding was deemed necessary.

### **4.2.1 Glitnir's pre-bankruptcy transactions**

Jón Ásgeir Jóhannesson, the owner of e.g. Bonus, used another of his organizations FL-Group to takeover Glitnir in April 2006. His plan to gain complete control over Glitnir was called „Project Tornado”<sup>8</sup>. Jóhannesson's first job was to remove the board of directors to appoint individuals that were connected to organizations he

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<sup>8</sup> Source: A subpoena issued by the FME or the Financial Supervisory Authority – Iceland towards among others, Jón Ásgeir Jóhannesson in the New York court system on behalf of Glitnir bank; <http://glitnirbank.com/images/stories/GlitnirNYComplaintasfiled5112010.PDF>

controlled. Glitnir's CEO Bjarni Armannsson was also replaced by Larus Welding who acted as a puppet of Jóhannesson.

It did not matter that Welding had never managed quite as substantial operation as in the case of Glitnir. The 30 year old Welding's prior experience was managing Landsbankinn's bank subsidiary in London which operated with 75 employees, but when he was appointed CEO, Glitnir had 1.900 employees.

Welding was offered substantial first year salary at Glitnir while at the same time he was offered special payments, a secure yearly bonus and valuable options that guaranteed him salaries worth 10 million dollars or 1.300 million IKR. In comparison Bjarni Armannsson, his predecessor got a total of 3.3 million dollars or 426 million IKR for his 10 years as Islandsbanki's / Glitnir's CEO. Regardless of his salary, Welding complained in emails to Jón Ásgeir that he was being treated more as a branch manager rather than a CEO. The FME has seized numerous emails from Jón Ásgeir to Welding, where he was informed how he should manage the bank.

Despite "Project Tornado's" hostile takeover was not a complete success, Jón Ásgeir controlled over 39% of the shares in Glitnir and 33% of the banks voting right. He was in fact in control over the bank only a year after increasing his share in Glitnir.

Between April 2007 and February 2008, Jón Ásgeir and his business partners started to fraudulently drain over USD \$2 billion out the bank to fill their pockets and prop up their own failing organizations with improper lending. They relied heavily of Glitnir's funds and after depleting Glitnir's cash reserves the bank was heavily exposed to the global credit crunch. Jóhannesson's transactions made no economic sense for Glitnir or its creditors (SIC report, 2010).

Similarly to Kaupthing, Glitnir raised its capital in numerous ways. They raised e.g. over USD 1 billion through the sale of medium term notes to investors located in New York and elsewhere in the U.S.A., without notifying the banks exposure to risk. At the time of bankruptcy, perhaps not surprisingly, all of Jóhannesson's loans and transactions defaulted. When Glitnir collapsed, its outstanding loans to Baugur and affiliated companies amounted to 70% of the bank's equity base (SIC report, 2010).

## **4.2.2 Older research on Islandsbanki**

### **2004**

Islandsbanki is a large organization with diverse services. It is mainly associated with young people and is considered trustworthy because of good employees.

### **2005:**

Less trustworthy than other banks and has a narrower customer base.

### **2006:**

Glitnir: Modern and progressive.

### **2007:**

Glitnir: Inconclusive, its image is vague and unclear.

### **2008:**

Glitnir: Associated with economic globalization and leadership. Otherwise its image is vague and unclear.

Gudlaugsson's (2008) conclusion was that changing your name alone is not significant enough for a successful rebranding. I believe his research illustrates how empty Glitnir's rebranding was. By changing their name they were able to create a short term image with its customers, but can be branded as a dud after their culture and identity didn't live up to their projected image.

## **4.2.3 Rebranding Glitnir / Islandsbanki**

Islandsbanki returned to the financial market on February 20<sup>th</sup>, 2009<sup>9</sup>. With the new CEO Birna Einarsdottir, they announced that the name change was necessary in order to eliminate confusion between the actions and the old Glitnir and the new Glitnir, as well as an attempt to rebuild confidence in the eyes of the customers.

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<sup>9</sup> <http://www.islandsbanki.is/english/about-islandsbanki/general-information/new-bank/>

Einarsdottir also highlighted that the emphasis of the rebranding process was to make it as inexpensive as possible. Einarsdottir was however promoted from within the bank as most of the managers that run the bank prior to the bankruptcy are still work there. Despite the name change they did not see the urge to change their swift number, which is used when during international money transfers, but for Islandsbanki the swift number is still GLITISRE (or 'Glitnir – Island – Reykjavik').

Islandsbanki changed their logo as well. Below you can see the last three of the organizations logos, newest one is one on the right side. When rebranding as Glitnir they introduced the fiery red as part of a new aggressive globalization tactic. When rebranding as Islandsbanki again they have made a couple of changes. They have decided to keep the red colour but with some modification. By examining to logos closely you will be able to see a small difference, with the new Islandsbanki logo having a little bit darker and less aggressive red colour. They have changed the size and font in their name as well, now it is written normally while the Glitnir logo only had capital letters. Overall the new logo can be seen as a combination of the two previous logos with small alterations.



Figure 3: Islandsbanki's former and current logos

While Arion did not really change the focus of their advertising, Islandsbanki has completely changed its strategy. In 2009 they changed their focus of advertising what they do, to advertising phrases from researches explaining how the bank should serve their post bankruptcy customers<sup>10</sup>.

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<sup>10</sup> Source: a marketing research made by Fortuna for Frettabladid 17.06.2009

Islandsbanki has also changed their stated values. While Glitnir held up the values: Fast, clever and professional; Islandsbanki's new values are: professional, positive futuristic vision.

#### **4.2.4 Financial solutions**

While Landsbankinn and Arion presented their solution of lowering the mortgage loan capital to 110% of the property's price, Islandsbanki presented an alternative solution. Islandsbanki's solution revolves around lowering the mortgage loan capital by 25% while at the same time changing the currency into Icelandic Krona with non-indexed interest rates meaning that monthly payments can vary but total loan capital will be fixed. While Landsbankinn and Arion decided to create their own version of Islandsbanki's solution in addition to their own, Islandsbanki has stuck with its original solution.

Islandsbanki's image was vague and unclear during its Glitnir globalization era. They grew in the same manner as Kaupthing, by enforcing unethical business transactions. Islandsbanki has initiated some rebranding decision but is run by relatively same Directors and Managers, unlike e.g. Arion who have replaced almost all of their decision makers.

The last case study follows, with the coverage of Landsbankinn which is done in the same manner as of Arion and Islandsbanki.

### **4.3 Landsbankinn**

Landsbankinn was founded on July 1<sup>st</sup> 1886 and initially had a very low capital. Landsbankinn served as the central bank from 1927 to 1961. But at the time that role more or less consisted of note issuance rather than monetary policy. In 1961 that role was handed to the newly founded Central Bank of Iceland. January 1<sup>st</sup> 1998, Landsbankinn was converted into a public limited company. The organization was subsequently privatized in stages between 1998 and 2003. A suspicion of political

influence regarding the privatization had always rumoured and was recently confirmed by the SIC report where Samson, an organization owned by Bjorgolfur Gudmundsson, was the only one allowed to favourably change the terms of his offer in order to acquire the bank. Landsbankinn was the creator of the Icesave savings accounts in the UK and Netherlands but their bankruptcy created an international dispute when 400.000 depositors were unable to access their accounts while waiting for payout from the Deposit Guarantee Schemes. To prevent Landsbankinn from transferring their foreign capital to Iceland, to save only their domestic operations, the British government enforced the anti-terrorism legislation on Landsbankinn, placing them on the top 20 terrorist organization list along side i.e. Al-Qaida, Taliban, N-Korea and Zimbabwe. The bankrupt and disgraced organization went into rebranding in the beginning of 2009 and changed their name into NBI.

#### **4.3.1 Landsbankinn's pre-bankruptcy transactions**

Bjorgolfur Gudmundsson was a well known business man in Iceland by the time he acquired Landsbankinn. He had run a number of organizations, some profitable, some not. Interestingly he had however been charged, along with his fellow executives on 450 criminal counts after a six year investigation of the collapse of his organization, Hafskip – then Iceland's second biggest shipping company. Gudmundsson was convicted in 1991 and given a 12 month jail sentence<sup>11</sup>. Strangely though, his previous bookkeeping felony did not stop him when acquiring Landsbankinn when the bank was privatized in 2002.

The bank started to grow in the similar means as Kaupthing and Glitnir. As mentioned in Kaupthing's chapter, Landsbankinn's former CEO Mr. Arnason stated for the SIC report that that the banks used their Luxembourgian subsidiaries excessively to hide ownership of organizations as there was a high demand for such a hiding place. Hidden ownership had been the key to the growth of many companies

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<sup>11</sup>

[http://www.thisismoney.co.uk/markets/article.html?in\\_article\\_id=414869&in\\_page\\_id=3#ixzz0oAwXkQXO](http://www.thisismoney.co.uk/markets/article.html?in_article_id=414869&in_page_id=3#ixzz0oAwXkQXO)



where the same individual could now get numerous loans with little collateral to finance their excess investments. When Landsbankinn collapsed, Bjorgolfur Thor Bjorgolfsson and companies affiliated to him were the bank's largest debtors. Bjorgolfur Gudmundsson, his father, was the bank's third largest debtor and in total, their obligations to the bank were higher than Landsbankinn's equity (SIC report, 2010). The complete access to capital allowed the father and son team, for instance to buy the English football club West Ham United, pharmaceutical manufacturer Actavis, Straumur-Burdaras investment bank and more. During a SIC hearing, Mr. Gudmundsson, who was the Chairman of the Board of Landsbankinn, said he believed that the bank had been very happy to have him as a borrower (SIC report, 2010; ch.2, p.3). Although rules were meant to be followed for the common customer, The SIC suggests that the same did not go for the top management. For example; Jón Ásgeir, owner of Baugur, controller of Glitnir and more; bought himself a penthouse in Manhattan for \$10 million, but - and this is actually in the SIC report, according to the CEO of Landsbankinn they *forgot* to ask for collateral for the loan.

Like the other two banks, Landsbankinn had been active in providing Icelanders with foreign currency mortgages in order to finance their excessive growth. In the recent report made by the SIC, former CEO S. Arnason stated that the housing mortgages offered by the banks from beginning of 2004 were a 'complete nonsense'. The loans were offered with too little interest rates i.e. 4,15% – 4,20% over a 40 year period, while the banks themselves were getting their financial capital with 4,75% - 5,15% interest rate. This would mean that even if everyone could afford their mortgage payments the banks would still have up to 1% deficit on those loans. Arnason continued his statement, saying that *'he was surprised that foreign rating companies didn't say something. When the system is designed so that you're locked in the business for the next 40 years, what should you do? You just follow the other banks blindly. And I was always surprised that Moody's didn't tell us: Are you nuts? I was always hoping that they would knock some sense into the madness.'* This comment fits under Schlenker and Weigold's (1992) description of remedial tactics aiming to offer an explanation for a predicament while at the same time placing the actor in a different perspective. Arnason tries to deny responsibility for an action he admits is wrong but at same time tries to attribute failure to an external, uncontrollable or inconvenient cause, in the hope of offering effective protection for him self.

The Icesave accounts were launched in 2006 and offered it's the UK and Dutch customer's higher interest rates than what was considered normal but the British customers received 6% interest rates while the Dutch customers received 5%<sup>12</sup> respectively. The bank had, just like Kaupthing and Glitnir, opened subsidiaries in a few foreign countries to help finance their growth. Kaupthing and Glitnir had however created independent subsidiaries in each of the countries while Landsbankinn just created a banking service in their own name. The difference lies in the lender of last resort or who provides guarantees if the bank collapses. While e.g. the bankrupt Kaupthing Edge and Kaupthing Singer&Friedlander were now the problem of various European Central banks, the Central bank of Iceland was responsible for compensating the 425.000 Icesave account owners. The initial response from Icelanders was to criticise the unfair treatment from the British government but these reports have changed after the true nature of the bank owners has been revealed. If everything in the SIC report is true, the British government was right stop Landsbankinn's money transfers to Iceland.

#### **4.3.2 Older research Landsbankinn**

Continuing with Gudlaugsson's (2009) research on the banks' image, the following are statements that were perceived the most fitting to Landsbankinn's image:

##### **2004**

Old fashioned, reliable with good employees. Least likely to be connected with corruption

##### **2005:**

Landsbankinn is viewed as reliable with a diverse customer base.

##### **2006:**

Trustworthy and provides good service.

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<sup>12</sup> <http://www.depers.nl/economie/207052/Icesave-wint-de-renteoorlog.html>

**2007:**

Trustworthy, flexible, provides good service and is not connected to corruption.

**2008:**

Still considered trustworthy and provides good service.

Gudlaugsson's (2008) research shows that Landsbankinn always, until the very end showed signs of a very strong and spotless image. The image remained unharmed despite Landsbankinn's participation in similar business transactions as the other two banks.

**4.3.3 Rebranding Landsbankinn / NBI**

On 7 October 2008, the FME were issued the power by the Icelandic Government to take control of Landsbankinn. Subsequently, New Landsbanki Bank hf. was created and Landsbankinn's domestic Icelandic deposits, as well as significant assets relating to Landsbankinn's Icelandic operations, were transferred to it. Initially the FME replaced the role of the board of directors.

Landsbankinn suffered the most in terms of lost or disgraced image after the 3MB's bankruptcy (Gudlaugsson & Eiriksson, 2009). After the bankruptcy the bank was run, in the same manner as the other two banks, as two entities; old Landsbanki and new Landsbanki. Three weeks after their bankruptcy, Landsbankinn were the first of the 3MB's to announce a change. Landsbankinn, the organization, would get a new name; NBI but their banking service would still operate under their brand name Landsbankinn. Without asking managers of the underlying reasons for sticking with the old name it is almost impossible to discover the true reason behind it. Arguably the name Landsbankinn has been so positive throughout the years that they predict that the bad publicity will blow over. Doyle (2001) argued that a good image has the tendency to stick it out through a crisis, even though it has lost its value. It was however difficult to see where their name change really took effect, since their only operation is the banking service. The change created some confusion for journalists, who started using reporting news about NBI which slowly faded out and a few weeks

later you could only read about Landsbankinn. Landsbankinn are however using the NBI name in their IBAN and Swift codes which are used in international money transfers. This change was necessary considering that Landsbankinn had, as previously mentioned, been put on a list of terrorist organizations which resulted in an automatic ban of all international money transfers to and from the bank. Arguably the name change was a necessary reaction to the ban although it also could provide a foreign, more globalized cover in the future.



Figure 4: Landsbankinn's logo

In 2009 Landsbankinn have changed their advertising from a football theme, where the bank highlighted that they were the main sponsors of the Icelandic football league, to advertising the staff that works in their branches and are considered the fundamental core of commercial banking<sup>13</sup>.

As one of the banks rebranding strategy, Landsbankinn has announced a new set of values. Their new values are: Respect, honesty, enthusiasm and professionalism.

#### 4.3.4 Landsbankinn's financial solutions

Landsbankinn's original financial solution was the same as Arion's, i.e. the foreign mortgage loans capital would be lowered to 110% of the property's market value. However, as mentioned earlier, after Islandsbanki introduced their 25% option, Landsbankinn decided to create its own version of it. The solutions are identical apart

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<sup>13</sup> Source: a marketing research made by Fortuna for Frettabladid 17.06.2009

from one condition. After downgrading the total foreign capital and changing it into Icelandic Krona, it is optional if the loans are indexed or non-indexed, the former meaning the total capital of the loan increases or decreases with changes in inflation and currency exchange rate, but the latter has fluctuating monthly payments with a fixed capital. It is interesting to observe however that on their website they emphasize the 25% solution with lengthy explanations while only displaying a link to their previous 110% solution<sup>14</sup>.

#### **4.4 Conclusion**

The reason why Landsbankinn now has the weakest image is undisputedly because of the Icesave accounts and the international dispute it created. Landsbankinn's behaviour, along the other 3MB's, came as a surprise to most people. Landsbankinn's story was, for me, the most difficult one to write considering the vast amount of material available on their behaviour. It is very interesting to view how the focus of Landsbankinn's news articles the last two years has changed.

In this chapter I have introduced the banks, illustrated their disgraceful behaviour and highlighted their rebranding decisions. In chapter five I analyse their rebranding strategies from my interviewee's perspective.

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[http://www.landsbanki.is/umlandsbankann/frettirotgafuefni/frettir/?NewsID=14744&utm\\_source=landbanki&utm\\_medium=website&utm\\_content=1\\_top&utm\\_campaign=25-laekkun-lana-i-erlendri-mynt](http://www.landsbanki.is/umlandsbankann/frettirotgafuefni/frettir/?NewsID=14744&utm_source=landbanki&utm_medium=website&utm_content=1_top&utm_campaign=25-laekkun-lana-i-erlendri-mynt)

## **5 Analysis**

Hatch and Schultz (2003) recommend beginning the process of corporate rebranding by an honest assessment of its image and culture as a prelude to a development and communication of a strategic vision. This can cause a stumbling block with disgraced organizations where its image is shattered by the previous cultural behaviour of the organization. In the previous chapter I have highlighted what the banks have done, both prior to their bankruptcies and during the implementation of their branding or rebranding strategies. In this chapter I will analyse the branding or rebranding efforts made by the banks before analysing statements made by my interviewees in order to capture their perception of the rebranding strategies. The chapter is divided into a few subchapters, where the first one illustrates my interpretations while the next two introduce the customers' perception of the banks post and prior to their bankruptcies. The fourth subchapter focuses on highlighting people's opinion in regards to e.g.: the new names, logos, values, advertisements and solutions. Last but not least are my concluding remarks where I formulate the answer to my research question while I summarise my findings.

### **5.1 Branding and rebranding efforts**

Landsbankinn has opted not to rebrand but to further rebuild its own brand's reputation. Landsbankinn has been a little quiet in their image strategies and I would have expected them to try to reflect their ideal image to their customers. As mentioned earlier, Kaikati and Kaikati (2003) argue that a revived service brand will have to change in order avoid a second bankruptcy. Landsbankinn, like the other banks, has changed its strategy in a way. They have stricter loan terms and appear to have at least postponed further globalization plans. One of the few changes they actually made was to introduce new values. Since values and emotions are key elements of corporate branding (Hatch & Schultz, 2003) it is appropriate to take a look at their new values: Respect, honesty, enthusiasm and professionalism. The values are in my opinion a little vague. If we start by looking into their new respect,

then it is a very open concept. Personally I have never experienced a lack of respect from the old Landsbankinn, so it is unclear to me what this change is supposed to accomplish on a personal customer level. At a share holder level however it can be linked with professionalism in the sense that it can be seen as a promise of appropriate behaviour while taking care of the shareholders investments, a promise to limit unnecessary spending on non related business services. I think Landsbankinn meant well when deciding to include honesty but it is a double edged promise in terms of a promise. I believe their intentions were to highlight a more ethical behaviour following their promise to behave professionally. On the other hand it is a question of how honest are they planning to be? Are they e.g. going to explain all the pro's and con's of their business deals to their customers, revealing all the secrets of their success? Either way this term can give unhappy customers fire power to enhance their frustration towards Landsbankinn's employees. In general it is just a little frustrating to analyse Landsbankinn's new values since I feel it is a little transparent that they are initialized by a CSR2 strategy from an organization that have been burnt by a previous transactions.

Arion and Islandsbanki opted to rebrand but with different focuses. Arion strives to change their CVI completely with a brand new name and a brand new logo. They have been working hard on introducing their new CVI but contradictory to theory (Van den Bosch et al., 2005) I believe they did not explore their current corporate identity, culture and historical roots in order find an optimal CVI that represents what the organization stands for. In stead their plan seems to be trying to make a fresh start but with the benefit of having their old client base. I am feeling a little torn about the perception of their new logo. On one hand, I find it hard to link the shape and design to the organization it represents (Hynes, 2008) and I question the likeability of it since I feel it fails to create any sense of meaning (Henderson & Cote, 1998). On the other hand since Arion was trying to change their image a new logo was essential (Henderson & Cote, 1998) and choosing a mild blue colour will go a long way of changing the cold modern image that Kaupthing had been strongly identified with (Kaikati & Kaikati, 2003). Arion is implementing an interesting CSR2 strategy which is

fully focused on Brown's et al. (2006) second viewpoint<sup>15</sup> where the organization only seems to be interested in what others think about the organization in stead of representing what the organization stands for. I do however feel that otherwise Arion have made series of positive changes regarding their managers and Board of Directors but the full effect of these changes will arguably have greater effect in the future.

As mentioned above Islandsbanki has also opted to rebrand but in a different way. By changing back to their old name, Islandsbanki tries to recover their old image which had been proven to uphold a good image. They will therefore try to test if it is true that a loyalty to an old name or logo should never be underestimated (Stuart & Muzellec, 2004). Their logo change is an attractive combination of the old Islandsbanki's and Glitnir's logo. I believe they were successful in creating a sense of familiarity and is recognizable (Peter, 1989) in their new logo since myself and some of my interviewee's did not remember correctly if the old Islandsbanki's logo had been red or not. I find it interesting that Islandsbanki is trying to create a new image with practically the same managers as before. Even the new CEO is a former manager within the bank.

But is it something the banks did wrong? We can analyse if the banks have successfully avoided the rebranding pitfalls. In regards to pitfall number three; *Emphasis on labels, no meanings* – Arion has been introducing the new name, values and more, and at the same time because of CSR2 reasons trying to *tell* people what it means but apparently without success. It is also questionable if their name Arion was selected since it does not sound Icelandic and appears to have no meaning for Icelanders, thus falling into pitfall five – *The heritage rebranding trap*. One of my interviewee suggested that the name might have been picked in order to be ready for the next time they get a chance at global expansion. Islandsbanki's rebranding strategy can be linked to pitfall number five as well, but in a different way. Their strategy is interesting to say the least. The direct translation of their name is the bank of Iceland, a name that had a good perception in regards to image and reputation, but at the same time it emphasizes its origin, a business environment that

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<sup>15</sup> As introduced in chapter 3.6



left creditors with defaulted loans and no collateral. Their strategy could therefore be considered good in regards to their domestic customers but it could also provide obstacles when acquiring new loans and loan lines. While Arion and Islandsbanki focus their energy on their rebranding strategies; Landsbankinn, armed only with their new values carefully thread in the shadows waiting for the storm to blow over, and you can not even tell who has the better strategy.

## **5.2 The interviewee's pre-bankruptcy reflections**

Over the past two years most of the news in Iceland has been about corruption and economical difficulties. Although I want to say that the common Icelander is quite aware and enlighten about the situation, people's opinion can be heavily influenced by the news coverage. Few of my interviewees mentioned that it was not long ago that people's conversations were focused on spiteful comments towards Britain for their allegedly unfair Icesave demands. After all, they thought Landsbankinn had done nothing wrong. Now, after the introduction of the SIC report, People are generally bitter towards the former bank owners. Regardless of how much news people have tried to follow it is apparent that all my interviewees knew at least that the former bank owners had used the banks to their own gain. A number of interviewees stated that the share number of news coverage following the publication of the SIC report meant that for the last month, it was difficult to engage in a conversation without mentioning something relating to the banks. People were a bit frustrated as well for how many individuals and organizations participated in the markets behaviour.

Petur: "Owning a share in Exista or Kaupthing was very beneficial. It allowed company owners to claim dividends from their organizations despite a loss of turnover since share prices [of Exista or Kaupthing] had increased and therefore their organizations assets had increased as well".

Some have follow every story eager to absorb as much knowledge as possible, others have decided to ignore the news, feeling that the pressure of all that constant negative news coverage was all too much;:

Anny: “I stopped watching the news in January 2009. It was just so depressing everyday that I decided the less I knew the happier I would be. If you mention Icesave to me, then this conversation will be over”

The majority of the interviewees knew that access to lower interest loans had fuelled the economic expansion. Some interviewee’s told stories of how some Icelanders were blinded by greed and vanity:

Anny:”You remember Gudrun [an Architect], right? She did the interior design for her customer that just bought a place. The house had just been completely renovated by someone with a help from his architect, and the place looked great. But Gudrun’s client wanted his dream house so the place was completely renovated again to fit ‘the emperor’s new clothes’<sup>16</sup>”.

### 5.3 Post bankruptcy reflections

Nearly all interviewees agreed that Landsbankinn had suffered the most in the form of disgraced image or reputation after the bankruptcies. Arguably the interviewee’s share this opinion since immediately after the bankruptcy; the ongoing international Icesave dispute had been on the news throughout 2009 and is still not fully resolved.

None of my interviewees however suspected that the 3MB’s were engaged in unethical business transactions prior to their bankruptcy. One of my interviewee, who had at the time even recently become an employee of one of the 3MB’s risk assessment division, even bought an apartment in the second half of 2007, at a peak market price. He was not the only bank employee that did not see the crisis coming:

Margret [Kaupthing employee; customer service from 2005 – 2007]: “I had no idea that there was something dubious going on with the management. When assigning mortgages to my customers I always had to follow strict rules. I always just assumed that the management did the same”:

It should be fairly obvious people are generally unhappy since many individuals lost a lot of money on the bankruptcy and because of the weak Krona, people’s mortgage

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<sup>16</sup> ‘The emperor’s new clothes’ is a short tale of vanity, written by the Danish author H.C. Andersen.

payments have increased dramatically afterwards. I asked people if they had, or at least considered to move their business to another bank, but everyone stated no. A few of them wanted to but the banks' mortgage loans all included a clause that stated if the mortgage loans owner did not have his salary savings account at that particular bank, the mortgage interest rates would automatically increase:

Björk: "Of course I want to move my business to another bank. I don't know where to though.... Another problem is that interest rates on my Kaupthing mortgage will rise if I move my business elsewhere. That's assuming that another bank will actually want to buy my mortgage from Kaupthing in the first place".

While some wanted to change but could not, others thought changing was just too much of a hassle and could not be bothered since the switching options were just too little. Since all of the banks had participated in questionable transaction, my interviewees had a hard time seeing an alternative to switch their business to. Not everyone however saw the urge to redirect their business to another bank:

Oskar:"Kaupthing is my bank...No; I don't see any reason to change... It's all better now, new owners."

I could not help but to smile when he answered my following question: do you know who the current owners are? His answer was short and simple: "some foreigners, right?" Icelanders may have been naïve enough to think that their own owners could not conduct unethical business, and now Oskar believes the foreign creditors who seized the bank as collateral to their defaulted loans will automatically have the best interest of their customers in mind. I am not saying that they have not been or do not intend to, it is just interesting to suggest that everything is safe now. Another interesting factor in his comment is that he states that Kaupthing is his bank. For him, the Arion name had not caught on.

## **5.4 The rebranding effect**

In the next few subchapters will continue analysing my interviewer's statements but now in direct relations to visual and stated changes made by the banks.

### 5.4.1 New name

Arion claimed they needed to change their name in order to signal a new direction and new values. Islandsbanki announced the name change was necessary in order to eliminate confusion between the action of Old and New Glitnir, supporting the attempt to rebuild confidence in the eyes of their consumers. Landsbankinn on the other hand, stood by its old name. My interviewees responded a little differently to their name changes. People were usually relatively pleased with Islandsbanki's decision since the old Islandsbanki had been a good bank. The interviewees usually did not understand Landsbankinn's decision to stick with their name but on the other hand they did not have an opinion if or how Landsbankinn should change. Some even stated that Landsbankinn should not spend any money on rebranding since they should focus on fixing the damage they inflicted on the economy. When it came to Arion, people were usually more open when commenting on the name change. No interviewee was happy about the name change, while the majority of them felt quite neutral about the change since the name did not evoke any image or meaning for them.

Julius: "I think they had to change their name. All this talk about new Kaupthing and old Kaupthing was just so confusing... I actually have no opinion about the name since they are not my bank."

A few interviewees did not appreciate the name change, although they disliked it with different level of intensity:

Vaka: "The name change annoys me [Arion]. I can not redirect my business to another bank because of my mortgage loan [from Arion]. And now, after they have changed their name, it does not feel like this is the same bank I chose to begin with".

Petur: "yeah, what's up with that? How many times have they [Arion] changed their name already? I really don't care what image they are trying to create at this point. I have already lost all faith in the bank after their abuse and now they are going to spend money on this? I have had enough and I am going to redirect my business elsewhere, I hope more will follow."

When I look closer into our conversation it is obvious that he is still angry but nevertheless it is interesting to analyse the time from when Kaupthing filed for bankruptcy

(on October 9<sup>th</sup>, 2008), till Arion announced their name and logo change (on November 21<sup>st</sup> 2009) and even until the time of the interview (May 10<sup>th</sup> 2010). After all this time he still claims that he is still *going* to redirect his business to another bank. Vaka and Petur are both frustrated at the name change but their disliking of the name derives more from the name *change* it self. My next question was to ask my interviewee's if they knew the story behind the name. Only two of the fourteen interviewees had any idea what the name meant or at least what it should mean. I would even suggest, given the interviewee's lack of meaning and neutral attitude towards the name; that Arion had fallen into Dowling's (1996) mediocre name changing trap. The two that did know the story had the following to say:

Bjarki:"the name Arion? Doesn't that come from some kind of a lame Greek dolphin comeback story?"

Bjarki only remotely remember the story behind Arion's name and is apparently not impressed. The Greek myth behind the name is relatively unknown to Icelanders as it is not taught at any educational stages.

Sigurdur:"It is a little ironic that they [Arion] chose a Greek name given their financial mess is similar to the Icelandic one. But I also think they decided to use the name just because they owned it in the first place. The same goes for Islandsbanki. By already owning the name, the next steps were much easier":

Arion was a name of a bond trading service that Kaupthing provided. By easier Sigurdur insinuates that they already had ownership of the names, along with the internet domains and more. This could limit the starting costs and efforts of the organizations. I suggest that Islandsbanki has been more successful than Arion at least regarding the name change since it provoked some positive meaning in the mind of its stakeholders.

#### **5.4.2 New logos**

Arion and Islandsbanki both introduced new logos in their rebranding campaigns. There general view of my interviewee's towards the new logos was rather neutral. Islandsbanki introduced a merged logo by combining Glitnir's logo with the previous

logo used by Islandsbanki. Three of my interviewee's even claimed that it was just their red Islandsbanki logo being reused even though the red colour was actually introduced by Glitnir. This suggests that Islandsbanki were in a way successful in creating familiarity, thus maybe adding value to it. None of the interviewee's however noticed the change in the red colour to a more subtle one, suggesting that the change was so small that it was always supposed to be a subconscious one.

Arion's logo however inspired little in the eyes of my interviewee's. I got no firm reaction, good or bad when trying to catch people's perceptions about it.

### **5.4.3 New values:**

Sigurdur: "Oh, I hate when organization are advertising their values. It is just PR statement that doesn't really mean anything."

Introducing new values was the initial rebranding strategy for all of the 3MB's, something that they all believed needed to be done. By changing the values the banks are trying to create a new brand identity. Values can be important tool in identity creation, but by analysing it you can see that there are two main flaws in the banks identity creation. One is that how it is created since it makes more sense to create ownership of the brand identity across the organization before it is launched, rather than attempting to convince staff about it once it is already out there (Gotsi & Andriopoulos, 2007; 351). If we analyse e.g. Arion's values, their old values were "prompt service, proactive service and advanced risk assessment", while their new values are "professionalism, ambition, concern for others and loyalty". Considering that their values were changed do to a CSR2 strategy, it is unlikely that are portraying an accurate image of their identity which means that they needed to convince the employees afterwards. This brings me to the 3MB's second identity creation flaw. Values can influence the service provided in different sectors but banking is a relatively basic operation. It is mostly about finding the balance between risk and return. Of Arion's new values, the concern for others is the one I find the most cynical. Apart from the presumption that the desired image of having the concern for others comes from the marketing department as responsiveness to a different market

environment, I find it very unlikely that a bank will place its client's needs higher than their own if it will hurt their long term profit. Will the bank, who has concern for others, hesitate any longer to seize the collateral if you default on your loan payments?

#### **5.4.4 The Financial solutions**

Sigurdur: "People are complaining that Islandsbanki are not providing as good enough solutions as Arion. They don't get that Arion's solution only works for richer individuals that took the most risk".

Sigurdur's comment refers to the foreign currency mortgage loan solutions of the two previously mentioned banks and he was actually right. As previously mentioned, Islandsbanki offered 25% downgrading of the loans while Arion offered to lower the loans down to 110% of the properties market value. At first glance Arion's solution look good considering the foreign loans have increased by around 115% of their 2008 value. Customers that took loans for 100% of the overpriced property value will probably be more than happy with this solution. However individuals that took less risk and owned e.g. more than 50% of their property would not gain anything. But the financial sector is unlike the produced goods sector in the sense that it is sometimes incredibly easy to imitate a service. Later, after a discussion in the media about the compatibility of each of the 3MB's financial solutions to the mortgage and foreign currency loans where among others, Arion's and Islandsbanki's solutions were compared, the latter was perceived as to offer a better solution. Arion were quick to respond and a couple of days decided to offer both solutions, the customers could therefore decide for themselves which one they wanted thus eliminating speculations around unfair service.

The banks current advertisement revolves around introduction of their mortgage loan solutions, and rightly so. About half of my interviewee's were hesitating to accept their solutions. There are currently a couple of court battles ongoing where customers are claiming that the foreign mortgage loans were illegal and some of my interviewee's were afraid that they would lose the right to sue if they would accept the banks solutions. The banks did however Apart from that then the banks state that

people have until July 1<sup>st</sup> to accept the solutions, after that they expect business to be back to normal.

Sigurdur: "I do not know why the government decided that the banks should fix the loans themselves. They are only going to calculate what they need to do in order help enough people without hurting their profitability in the long run. People need more help then that"

This can be considered a little simplistic view of the situation. I believe the banks must do all that they can do before the government decides if the general public needs any further action.

## **5.5 If you had to start all over**

Lena: "No, the banks need to fix their image, but they should only focus on the fourteen year olds. You pick a bank when you are fourteen and you basically have to stick with that bank to the end. I know very few people that actually switch because it is so much hassle. Not to mention if you are like me and have a bloody Arion mortgage that doesn't really allow you to switch in the first place".

This wonderfully cynical response highlights the apparently high switching cost that is highly influencing people's perception of the banks image creation. Few interviewees were really giving me a direct clear message of which bank had been the most successful in recreating a positive image. Many of them responded with the notion of since they can't really switch they had not really thought about it. By the time I had noticed this tendency I knew I had to contact the interviewees again with a follow up question.

I needed to get people's perspective on which bank they would chose to do business with if they were new to market, or at least free from their old commitments. I asked which bank they would chose to do business with if they still lived in their current apartment, either by renting or with a loan from the Housing Financing Fund (to limit restraining options). The responses, along with the selections and reasons, varied for each individual. I list the responses in groups according to who their current



commercial bank is in order to see if they would pick the same bank again, if the banks rebranding decision had worked, or at least what would influence their selection:

Currently at Arion:

Björk: "If I would change a bank I would probably switch to Islandsbanki. It is close to my home plus they always have plenty of parking spaces. My mother in law works there as well"

Vaka: "I honestly do not know which one I would choose. I have avoided looking into banking options since I can not switch.

Margret: "I might be tempted to redirect my business to one of the Sparisjodur<sup>17</sup>. The problem is that I know some of them were involved in similar business scandals as the bigger banks but I do not know which ones."

Oskar: "I would still pick Kaupthing [Arion]".

Currently at Islandsbanki:

Bergur: "If I would get the opportunity to switch I would still do business with Islandsbanki. I mean, my personal service representative is just great. Once the bank had to close my credit card and she did not have my phone number or email. But she knew my brother in law a little so she called him and asked if he could tell me about it."

Currently at Landsbankinn:

Brynjar: "If I would redirect my business to a new bank then I would pick the bank closest to my home. The banks were all so corrupted that their rebranding does not influence my decision at all."

Bjarki: "That's a difficult question. Should I choose: Arion, who inflicted the most damage to our economy but have tried the hardest to create a positive image; Landsbankinn, the Icesave terrorists that have done just a little more than to say they are sorry; Islandsbanki, who are trying to improve but with the same managers as before; or one of the smaller banks who only have a single branch, often located in the middle of nowhere? I have never liked Arion, so I would not pick them. I would

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<sup>17</sup> A Sparisjodur is a common name for small, independent, regional, commercial banking institutes that are in numerous locations in Iceland, who usually operate with one branch only.

probably pick either Landsbankinn or Islandsbanki since I have used them before [familiarity]”.

The pattern that emerges from the above question is that despite what strategy the banks decided to follow; i.e. to rebuild their brand - like Landsbankinn, or rebrand – like Arion and Islandsbanki. The few interviewees that would chose to stay in business with the banks are usually choosing them for other reasons e.g. convenience, accessibility and personal service – or in other words, not because of their new branding or rebranding strategies.

## 5.6 Conclusion

Returning to the research question, we have an opportunity now the sit back and reflect on it. As a reminder, here is the research question again:

**RQ:** How are the rebranding strategies of the three major Icelandic banks perceived by its customers?

By interviewing some of the banks customers, I have tried to answer the above question. My research shows, among other things, that high tying cost and a promise of empty values can leave customers of a disgraced organization a bit numb. Is it clear that it is normally considered difficult to switch your banking service; but during a deep financial crisis where individuals can not afford any extra cost, the tying cost numbs

I find it interesting that the repercussion of the 3MB's pre-bankruptcy actions have scarred the banking sectors image so badly that the some customers don't even see the reason to redirect their business to a smaller banking operation since it could be even easier to manipulate its control. As mentioned before, the criticism that surrounded the banks during their globalization attempts were among other that the

3MB's CEO's lacked education and experience. By the looks of the new board of directors and the new CEO, Arion has been responding well to that criticism. I however highlight that although these changes are positive and could influence the perception of a CSR or a CSR2 strategy, we must not forget that most of the opportunities that the former bank owners had are still available. I believe that trust must be restored to the general financial environment before the customers can fully trust the banks again. Although rebranding can help to create the desired image it is apparent that the problem is a little deeper than that. A new name, logo, CEO, managers, board of Directors and new values can all influence an image in a positive way but despite all the *shiny* new things, most of the possibilities that the former owners took advantage of are still there. A new manager with a good experience and education is not a guarantee that he or she will not be tempted to take advantage of an unethical deal. Trust is something that needs to be shown in action, so it will take time to build up.

The 3MB's were lucky in a number of ways. They were lucky considering they are providing a necessary service, that so many participated in the disgraceful behaviour, thus minimizing switching options and for the same result they were *smart* enough to tie the interest rates to a continuing business transactions with the bank. Tying unhappy customers to a continuing business with your organization may however be difficult to handle but the benefit is that it gives the 3MB's time and therefore an opportunity to win back their reputation without losing too many customers at the same time. The 3MB's new values begin with a promise of future behaviour. They might work wonders for the future, who knows? But as for this moment, stated values such as professionalism, loyalty, concern for others, respect and ambition can only serve as a promise of good behaviour that will undergo constant re-evaluation that will affect their image and reputation, i.e. put replace the promise with meaning.

Marketing has a way of claiming that it can show us the answer. By reading theories on branding and rebranding, you are informed of the steps you need to take in order to be *successful*. Rebranding theories, as stated in chapter three, emphasize that you have avoid certain pitfalls in order for the rebranding campaign to work properly, but and I want to emphasise, that they still insinuate that it will *work*. I however believe my modest research has shown an example when a disgraced organizations has

rued the financial sector of all trust, it leaves the rebranded version of themselves with little to build upon. If I state that even though Arion has been the most active party of the three in their rebranding strategy, the result has not really has not given them the return that they want. When I asked my interviewees which bank they would chose if they were starting all over again, only one individual chose Arion and he did not even seem that upset with the bank to begin with.

## **6 My contribution and further discussion**

My contribution to theory revolves around power relations when rebranding through CSR2 strategies. I believe I have shown an example of how difficult it can be to rebrand a disgraced organization where common theories do not necessarily apply. The 3MB's in my thesis seem to have very little power to influence their customer while they try to rebuild their image. Not only do the disgraced organizations seem to have little influential power but on the contrary when they try to brand or rebrand themselves they appear to offer the power to their bitter customers who sit back and welcome any chance they get to criticize their efforts. This offers a different viewpoint on common theories on what you should do in order to maximise your influence. I do however need to highlight that the particular circumstances play a huge part here. If there were not for the lack of faith in the financial system, or e.g. if it had been only one of the banks that had behaved in this manner; they might have been more successful in using common branding or rebranding strategies. I do however highlight that it appears that the common theories are not always the ideal ones.

The collapse of the 3MB's can be seen as a story of how business men became more powerful than the government. Its collapse can provide an interesting observation of how disgraced organizations try to rebrand their image and reputation. The Icelandic crisis will hopefully serve as a warning of what can happen in capital markets. It is a story of among others two Icelandic brothers who produced TV dinners in a small town, became bank shareholders, and went on to buy themselves a yacht that used to belong to Giorgio Armani. Humans however seem to have great difficulty trying to learn from economic history (Ferguson, 2008). Ferguson further suggests that the ever present generation never believes that they can experience the financial problems that the previous generation experienced claiming that today's market is far better and more complex so the danger for some reason seems unlikely. Still today there is financial turmoil in Southern Europe where e.g. Greece has shown signs of careless bookkeeping and will have to reorganize. It will be

interesting to follow up on their CSR2 strategies and see how they will try to regain the trust of the financial market.

I do not envy the Icelandic banks position. Choosing an optimal response to satisfy the bitter voice of society is a difficult task. There is no way of knowing how much money should be spent on rebranding the front of the organization while the bitter society demands compensations? Everyone expects the banks to correct their loans since they are the ones that created this mess. Banks however, like many organizations, have the basic objective to invest their own, and hopefully their client's money in order to gain profit. All of the 3MB's showed profit in 2009; Arion announced a profit of 12.8 billion IKR<sup>18</sup>, Islandsbanki 23.9 billion IKR<sup>19</sup> and Landsbankinn 14.3 billion IKR<sup>20</sup>. I must include that customers have until July 1<sup>st</sup> to accept the banks' financial solutions. After downgrading the mortgage loans, it is unlikely that the banks will show profit for 2010. It is however unavoidable that the banks will show profit in the near future. After all, if the private commercial banks are not in business to make profit, then who is? It will be interesting to follow up on their transactions and analyse when people will have forgiven the banks enough for their previous behaviour to accept their future profitability.

The 3MB's disgraceful behaviour has left the Icelandic economy with a huge dept. It would be naïve to think that the depts. can be fixed with easy solutions. It is a price that will be rolled on to future generations who will continue to pay for years to come, leaving them with less room for their own mistakes. Sadly though, the bank owners did not only burn their own soil, they successfully created depts. for other nations as well both in terms of direct transactions with the 3MB's and through consequential bankruptcies of Icelandic organizations. It is therefore arguable that the reputation of Icelandic organization will be scarred for some time now, resulting in downgraded credibility and purchasing power.

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<sup>18</sup> <http://www.arionbanki.is/?pageid=853&newsid=8976>

<sup>19</sup> [http://www.islandsbanki.is/um-islandsbanka/frettir/nanar/item60929/Afkoma\\_Islandsbanka\\_arid\\_2009/](http://www.islandsbanki.is/um-islandsbanka/frettir/nanar/item60929/Afkoma_Islandsbanka_arid_2009/)

<sup>20</sup> <http://www.landsbanki.is/umlandsbankann/frettirotgafuefni/frettir/?GroupID=294&NewsID=14737&y=0&p=1>

There are also huge research potentials in CSR and CSR2 related topics in the Icelandic economy. I for one find it very interesting that of the 147 individuals interviewed in relation to the SIC report on the collapse of the Icelandic economy, none admitted to play any part in the bankruptcy of the 3MB's. Many of them placed emphasis on compliance to regulations; the regulations were just not good enough.

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[http://www.thisismoney.co.uk/markets/article.html?in\\_article\\_id=414869&in\\_page\\_id=3#ixzz0oAwXkQXO](http://www.thisismoney.co.uk/markets/article.html?in_article_id=414869&in_page_id=3#ixzz0oAwXkQXO) (2010-05-05)

## Appendix 1 - Interview topic guide

1. What is the first bank that pops up in your mind
  - a. Why?
2. To what extent do you understand the cause of the 3MB's bankruptcies?
3. How has the financial crisis affected your personal financial status?
4. What is your overall opinion about the banks' image and reputation? Is anyone of the banks better or worse than the other?
5. Do you still use the same commercial bank as before the crisis?
  - a. (If No): Which bank are you using now? Why did you change?
  - b. (If Yes): Have you considered switching
    - i. (If No): why not?
    - ii. (If yes): Why haven't you completed a switch?
    - iii. (If yes): Is it likely you will complete a switch in the near future?
6. What changes have you noticed, in appearance or structural at Arion bank?
  - a. What is your overall perception of the bank?
  - b. Do you know what the new name means?
  - c. Would you recognise their new logo?
  - d. What do you think of their new values: professionalism, ambition, concern for others and loyalty, with the customer in the foreground at all times?
7. What changes have you noticed, in appearance or structural at Islandsbanki?
  - a. What is your overall perception of the bank?
  - b. What do you feel about the banks strategy of re-using their old name?
  - c. How is their new logo different from their old ones?
  - d. What do you think of their new values: professional, positive futuristic vision?
8. What changes have you noticed, in appearance or structural at Landsbankinn?
  - a. What is your overall perception of the bank?
  - b. Why do you think Landsbankinn hasn't changed its name or logo?
  - c. What do you think of their new values: Respect, honesty, enthusiasm and professionalism?



9. The financial crisis has caused a lot of trouble in Icelandic where, among other, the fall of the Krona and high mortgage loans and unemployment has made it difficult for families to make ends meet. Who do you think is responsible for providing solutions for rectifying the situation?
10. The banks are offering financial solutions to among other; unfavourable mortgage and foreign currency loans: Have you used any of the above mentioned services?
  - a. (If no): Why not / Do you intend to do so in the near future?
  - b. (If yes): Was it beneficial?
11. Do you think the banks financial solutions are enough to regain the public's trust and rebuild their reputation?
12. Lets assume that you live in the same place as now<sup>21</sup>, either renting it or own it with a loan from the Housing Financing Fund<sup>22</sup> and otherwise free from being tied to your current bank. Since banking can be considered a necessary service in today's society, what bank would you chose to start doing business with?
13. Is there anything you would like to add?

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<sup>21</sup> In case of accessibility, so that the interviewee does not chose a far away bank subsidiary, knowing that he/she would never go there to use their service

<sup>22</sup> The condition is necessary to remove the notion of being tied to any bank.